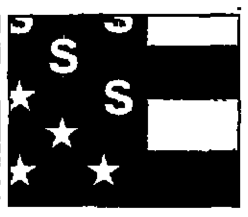
FINANCIAL TIMES

World Business Newspaper http://www.FT.com

TUESDAY DECEMBER 29 1998

The meaning of quality
Consistency is no longer enough
Tony Jackson, Page 17



US economy
Set to keep rollin' along
Alan Blinder, Page 10

Global c[illegible]
Still resisting merger mania
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Sewage disposal
At last UK stops North Sea dumping
Page 6

WORLD NEWS

Tribesmen hold 16 western tourists in Yemen kidnapping

South Yemeni tribesmen kidnapped 16 Western tourists yesterday. The 12 Britons, two Americans and two Australians were seized only three weeks after the abduction of four Germans in another area of the Arabian peninsula nation. More than 100 foreigners, including diplomats and oil workers, have been abducted since 1992, but most have been released unharmed. **International news, Page 4**

Begin to challenge Netanyahu
Ze'ev Binyamin Begin, son of Likud founder Menachem Begin, is leaving the party to lead a right-wing challenge to Likud prime minister Benjamin Netanyahu in Israel's elections in 1999. **International news, Page 4**

Algerian villagers' throats cut
Moslem rebels cut the throats of 19 villagers in Ain Defla province, including eight children, in the worst massacre in Algeria since the start of the Moslem holy month of Ramadan, government security forces said.

Fragile truce in Kosovo
Serbian security forces yesterday kept away from ethnic Albanian rebels after four days of clashes in Kosovo province, but diplomats were unsure whether a local truce would hold for long. **European news, Page 2**

Bhutto prevented from leaving
Pakistani opposition leader and former premier Benazir Bhutto was barred from leaving the country. She was trying to fly to see her children in Dubai but was prevented because of corruption cases pending against her. **International news, Page 3**

Yacht race claims at least 6 lives
At least six deaths in the Sydney to Hobart yacht race prompted questions about why organisers did not delay the start in response to forecasts of bad weather. Nearly 60 people were winched from heavy seas in Australia's biggest maritime rescue. **International news, Page 3**

Indonesian projects cancelled
Indonesia said state oil company Pertamina had cancelled contracts on 152 projects, mostly linked to the family and associates of ex-president Suharto, because of alleged corruption in the way they were awarded.

Hun Sen shifts ground on trial
Cambodian prime minister Hun Sen said a trial of two Khmer Rouge leaders who defected last week might not be in the country's best interests. Hun Sen had previously said they should face an international tribunal.

Smuggling suspects arrested
Chinese border guards arrested two men suspected of buying North Korean women with smuggled cigarettes and selling them in China for cash, the China News Service said.

Hungary's tough revenue enforcers
Hungary's parliament passed a law creating tax inspectors with formidable powers. Members of the special tax force will have cattle prods, mace, handcuffs and the right to use covert surveillance. An estimated 30 per cent of Hungary's gross domestic product comes from the black economy.

BUSINESS NEWS

Murdoch moves to expand European television interests

Rupert Murdoch, fresh from his preliminary agreement to buy a controlling stake in a new Italian pay-TV network, is close to acquiring a stake in another European television partnership involving Germany's Kirch group and Italy's Mediaset. **Page 15**

Wall Street firms are still paying the price for the worst financial market disruption in 50 years, despite a rebound in November. The fourth quarter is expected to be only marginally profitable for many investment banks. **Page 13**

Talks between National Power, the UK energy producer, and Poland's treasury on the purchase of a stake in one of the country's largest power generators, have ended. **Page 13**

Fuji Bank, one of Japan's largest commercial banks, is to raise Y217bn ($1.87bn) by issuing new shares in January. Its business partners in the Fuyo *keiretsu*, or corporate family, will provide 60 per cent of the capital. **Page 13**

Shares in Cephalon, the US biotechnology company, rose sharply after the US Food & Drug Administration approved its treatment for narcolepsy, the first non-amphetamine drug to be approved for the disease in 40 years. **Page 13**

The French government has confirmed giving Thomson-CSF, the defence electronics group, clearance to discuss a link with the defence unit of the UK's General Electric Company, but said it expected any agreement to be "balanced". **Page 14**

A venture capital fund controlled by LVMH, the French luxury goods group, has made its first transaction by acquiring Laflachère, which holds a majority stake in France's leading toothbrush maker. **Page 14**

Japan's construction sector suffered another blow when Tokyu and Fujita Construction warned that losses would be more than double those forecast earlier. **Page 14**

China is to rely more on its emerging domestic bond markets next year, as the government continues its fast-growing debt issuance programme. **Page 13**

South Korea said its industrial output climbed 1.4 per cent in November, the biggest year-on-year rise for any month in 1998. **Page 3**

Philips Electronics is selling part of its stake in US-based Navigation Technologies Inc, a leader in car guidance technology, to a financial consortium. **Page 14**

Sales at Qingdao Haier, China's leading refrigerator manufacturer, rose 50 per cent this year to RMB16.2bn ($1.96bn). **Page 14**

Thai exports are still falling in dollar terms, despite the baht losing about a third of its value over the past 18 months. **Page 3**

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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10 years after
John Lloyd revisits the Gdansk shipyard where Poland's liberation from Communism began.
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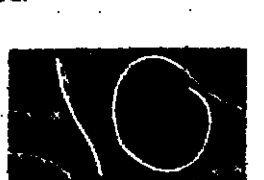

US strikes back at Iraqi missile base

Clinton says raid is retaliation for attacks on Western aircraft patrolling no-fly zone in northern part of country

By Mark Suzman in Washington and Roula Khalaf in Baghdad

US aircraft yesterday attacked a military base in northern Iraq from which missiles had been launched against them.

It was the first serious military confrontation between the two sides since US and British forces stopped their air raids nine days ago, according to the Pentagon.

The incident came a day after Iraq threatened to fire on Western aircraft in the two no-fly zones enforced by the US and its allies over Iraqi airspace. Yesterday evening Iraq said it believed it had probably shot down a western aircraft.

President Bill Clinton said the strike, launched from the joint US/Turkish air base at Incirlik, in southern Turkey, was necessary after Iraq had violated the northern no-fly zone by firing surface-to-air missiles at a routine air patrol.

"Our pilots have the authority to protect themselves if they're threatened or attacked," he said. "They took appropriate action in responding to Iraq's action."

The aircraft fired a combination of anti-missile and precision-guided bombs.

However, the Iraqi government challenged the US version of events, saying the attack had been unprovoked. It said the US strike had killed four soldiers and injured at least seven others.

An Iraqi military official said western aircraft had "violated" Iraqi airspace twice yesterday. He said the aircraft approached Iraq's air defence positions in the morning and were shot at.

Later, the aircraft returned and attacked an Iraqi air defence position in the north, prompting Iraq to return fire. "Our air defences confronted the planes and forced them to retreat," claimed the Iraqi official.

Baghdad has maintained that US aggression has continued since the four-day bombing campaign ended on December 20. The bombing was aimed at wrecking Iraq's weapons production programme in retaliation for the alleged failure to co-operate with UN arms inspectors.

Baghdad has also attempted to turn the no-fly zones into a new issue. The zones were set up after the 1991 Gulf war to protect Iraq's Kurds in the north of the country and the Shias in the south. US and British aircraft patrol the zones.

On Sunday, Taha Yassin Ramadan, Iraqi vice-president, issued a warning that Baghdad did not recognise the no-fly zones and would fire at penetrating aircraft.

Iraq has often tried to challenge the no-fly zones and to highlight that they were not set up by a UN resolution, but by an agreement among the then Gulf war allies that it claims violates the country's sovereignty.

But in the past defiance has meant locking a radar onto western aircraft rather than firing missiles at them.

Diplomats in Baghdad said yesterday that Iraq considers that the no-fly zones should no longer exist because the US claims to have eliminated its weapons of mass destruction.

"Above all, the Iraqis are trying to keep their issues and their problems alive," one western diplomat said yesterday.

The British government said no British aircraft had been involved in the incident.

Mr Clinton said maintainance of the zones would continue to be a key element of US policy to contain Saddam Hussein.

"Because we effectively control the skies over much of Iraq, Saddam has been unable to use air power to repress his own people or to lash out at his neighbours," he said.

Standing firm: President Clinton said at a White House briefing yesterday that the air strike on a base in Northern Iraq was necessary AP

Europe's banks prepare for launch of euro

By Peter Norman in Brussels, Christopher Brown-Humes in London and Tony Barber in Frankfurt

Across Europe the talk is of war rooms, secure telephones and emergency rations, but while the preparations may feel military, the purpose is peaceful; to launch the euro, the new single currency, on January 1.

Tens of thousands of bank staff across Europe will be curtailing traditional New Year celebrations this weekend, as they prepare for the first day of trading in the new currency on Monday, and the expected shock-waves from the unprecedented simultaneous conversion of 11 currencies. All the world's main financial centres will be affected.

Big banks have established "war rooms" to manage the changeover and European Union central bank governors will have to be within an hour of a secure telephone over the weekend to deal with any emergency.

"It sounds somewhat dramatic. It isn't meant to be. I think we are adequately prepared but we also have to be prepared for the eventuality that something, somewhere can go wrong," said Wim Duisenberg, president of the European Central Bank, which will have full responsibility for monetary policy in the euro-zone.

The publication of a full set of official conversion rates on New Year's Eve will mark the start of a frantic 100-hour race to convert cash balances, redenominate bond and derivative portfolios and make the final changes to computer systems.

Although Britain will not be a founder member of the European single currency, much activity will centre on the City of London, the largest currency trading centre in Europe. Some 30,000 information technology specialists and back-office staff are expected to be working in the financial district over the New Year weekend. Special transport, catering and accommodation is being laid on for employees at what is normally a quiet time of year.

Paul Cantwell, partner with Andersen Consulting, said: "Getting ready for the euro has been the biggest single operation ever undertaken by London's financial sector, dwarfing even Big Bang [financial sector deregulation] in the 1980s."

He says even small mistakes in the way programmes and processes are adapted for the euro could generate big losses given the sums of money involved. "Given the size and complexity of all this, it is the corporate equivalent of doing a full engine overhaul during a 10-second Grand Prix pitstop."

Preparations for the weekend have been under way for months at the ECB and at national central banks.

For the ECB, the main concern is to ensure that all the outstanding public debt of the 11 euro-zone countries is successfully redenominated over the weekend because this will serve as the collateral for the monetary operations that will have to be executed by the central bank from January 4.

The ECB has set up a working group of specialists known as the "changeover committee" which has included three people from each central bank. Changeover working groups will be on the spot in the national central banks of all 11 euro-zone countries over the weekend.

The ECB is prepared in case decisions need to be taken at the level of its executive board – and secure telephones will be used if a decision is required from the ECB's governing council.

In Frankfurt, where the ECB has its headquarters, the Deutsche Börse, the German stock exchange, is one of hundreds of financial institutions that have asked staff to work or be on call over the coming weekend.

Banks freeze LG Semicon's credit

By John Larkin in Seoul

Government-controlled Korean banks yesterday froze fresh lending to LG Semicon as punishment for the semiconductor maker's defiance of a government demand that it merge with Hyundai Electronics Industries.

The banks are also considering calling in existing loans, but some analysts said the chipmaker had enough cash reserves to survive the credit squeeze.

It is the first time the government has used its control over the partly nationalised banking system to punish a conglomerate dodging its efforts to trim overcapacity in key industries.

A merger between LG Semicon and Hyundai Electronics Industries would create the world's second biggest chip producer, regarded by the Korean government as crucial to kick-starting consolidation in other sectors.

But LG Semicon has rejected the terms of the proposed merger, which would give its rival a 70 per cent controlling stake in the combined company.

President Kim Dae-jung yesterday urged LG Semicon, a unit of South Korea's fourth largest conglomerate LG Group, to endorse the project. "LG Semi- ... ut its prom- ... refused to ... tand-off on a ... firm Arthur D. Little, published last week, that found Hyundai deserved to lead the company with a 70 per cent stake. LG has threatened to sue ADL for damages. "That LG Semicon has to be penalised with financial sanctions is something that cannot be understood," the company said.

The credit freeze makes good on threats made by the powerful watchdog Financial Supervisory Commission to squeeze financing to conglomerates that try to sidestep corporate restructuring.

The top-five conglomerates signed reform agreements this month. The second big restructuring plan – a business swap between Daewoo Electronics and Samsung Motors – has also hit a snag, with Samsung's insistence that Daewoo continue producing its SM5 sedan.

Analysts said LG Semicon had amassed up to Won2,000bn ($1.65bn) in cash reserves to absorb the impact of the banking sanctions. "That's about half its debt," said Chun Woo Jong, a chip analyst with Dongwon Securities. "It can survive, but in reality it must give up. A company cannot do business in Korea without the support of the government."

Analysts believe it will eventually succumb, but it may also abandon the merger and form an alliance with a foreign partner to manufacture next-generation, high-speed chips.

WORLD MARKETS

STOCK MARKET INDICES		
New York (lunchtime)		
Dow Jones Ind Av	9,253.52	(+35.53)
NASDAQ Composite	2,169.81	(+26.59)
Europe and Far East		
CAC40	3,873.10	(+0.66)
DAX	5,044.77	(+93.00)
Nikkei	13,708.66	(-88.89)
US LUNCHTIME RATES		
Federal Funds	4.9375%	
3-mth Treas Bills: Yld	4.58%	
Long Bond	101¼	
Yield	[illegible]	

GOLD		
New York Comex		
(Feb)	$288.8	(287.8)
EXCHANGE RATES		
Sterling		
New York 1.6735		
Dollar		
New York lunchtime		
DM	1.6795	
FFr	5.6325	
SFr	1.3715	
Y	115.875	
Tokyo close		Y 117.05

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EUROPE

SERBIA REVOLT DIPLOMATS DOUBT THAT LULL WILL CONTINUE

Truce brings halt in Kosovo fighting

By Guy Dinmore in Belgrade

Serbian security forces yesterday kept their distance from ethnic Albanian rebels after four days of clashes in the north of Kosovo province, but diplomats were unsure that a local truce negotiated by international observers would hold for long.

A spokesman for the Organisation for Security and Co-operation in Europe (OSCE) said the two sides had agreed to a ceasefire on Sunday and OSCE observers had evacuated two wounded men, one Serb and one Albanian.

At least 14 people were killed in fighting that began on December 24 in several villages held by the rebels close to the northern town of Podujevo. Most of about 100 armoured vehicles of the Yugoslav army involved in the operation have since withdrawn to a nearby airfield.

The most serious outbreak of violence since early October had threatened to tear apart a ceasefire announced by both sides after the threat of Nato intervention forced Yugoslav President Slobodan Milosevic to withdraw most of his special police units and part of the army from Kosovo.

Diplomats paid tribute to William Walker, the US ambassador heading the OSCE verification mission, and US and British observers who persuaded the warring parties around Podujevo to stop fighting.

But diplomats also noted that their direct intervention had gone beyond the mandate of the OSCE and raised concerns about the safety of unarmed observers venturing into conflict zones.

Ethnic Albanian villagers in Lapastica took advantage of yesterday's calm to bury two men killed by shellfire. Local commanders of the pro-independence Kosovo Liberation Army (KLA) told reporters, however, that they knew nothing about a ceasefire negotiated by the OSCE.

Serbian officials yesterday accused the KLA of killing three gypsies in the nearby town of Mitrovica on Sunday night, after the OSCE had negotiated a ceasefire between the two sides.

KLA rebels in the Podujevo area were well equipped with new uniforms, snow-camouflage gear and the paraphernalia of a mobile guerrilla army – generators, sat-phones and a fax machine. On the other side of the newly established front line, Serbian soldiers in greatcoats huddled around a camp fire next to a lone tank.

Serb civilians fled villages around Podujevo, fearful of further attacks by the KLA. Municipal leaders in the town, which lies on a main north-south highway, issued an open letter to Mr Milosevic and other Serbian leaders in which they accused the Belgrade regime of failing to guarantee their security.

Their protest reflected the nationalist pressures on Mr Milosevic not to cede territory to the KLA, while at the same time the Belgrade regime needs to cut a deal on autonomy for Kosovo that would bring relief to the sanctions-hit Serbian economy.

An ethnic Albanian guerrilla sniper aims at Serb security forces near Podujevo at the weekend. International observers have negotiated a shaky truce Reuters

US unimpressed by exchange rate target zones

Emu launch will make little difference to American policy of benign neglect of dollar, and active management idea finds little favour, reports **Wolfgang Münchau**

US officials are pouring cold water on Franco-German suggestions for target zones in the exchange rate between the euro and the dollar.

The comments suggest that the US will continue to pursue a policy of benign neglect towards the dollar, and that the launch of European economic and monetary union (Emu) on January 1 will make no difference to present US policy.

The debate over exchange rate policy in the future euro-zone has been triggered by concern in Europe over possible exchange rate instability next year. A growing number of European finance ministry officials, central bankers and academics believe the euro could appreciate strongly against the dollar during 1999, as international investors pile into euro assets.

William McDonough, president of the Federal Reserve Bank of New York, said in a recent interview that the arrival of a new competitor to the dollar would impose strong disciplines on US economic policy.

But he rejected suggestions that the euro-dollar exchange rate should be constrained through target zones or other means of active policy management. "I don't think it is realistic or desirable to have an agreement on target zones. The best thing for Euroland is to run its economy properly."

This view is fully shared by senior officials in the Clinton administration. One official indicated that a policy shift would not be considered unless there was a serious crisis in the foreign exchange markets.

Fred Bergsten, director of the Institute of International Economics in Washington, is one of the few US advocates of exchange rate target zones. He said Japan's recent policy shift in support of target zones had added significantly to the weight of international opinion favouring a more activist exchange rate policy.

He also noted that the coming US presidential elections could accelerate the decline in the dollar, as presidential candidates were bound to blame the $300bn current account deficit for the loss of US manufacturing jobs. He said the dollar could prove vulnerable to an election campaign hijacked by rhetoric on trade protectionism.

"The only way to reduce the deficit is through a lower exchange rate. [Treasury secretary] Rubin's strong dollar rhetoric will then be thing of the past," he said.

While US officials are relatively unconcerned about the exchange rate, they appear both concerned and baffled by economic policy inside Europe itself.

There is near-unanimous agreement among US officials that Emu's survival depends on Europe's willingness to embrace more flexible labour, product and financial markets.

Even economists such as Professor Paul Krugman of the Massachusetts Institute of Technology, who in the past have criticised Europe's central banks for running overly conservative monetary policies, now say the centre-left governments have shifted their focus too far from micro-economic reform towards macro-economic demand management as a tool for reducing unemployment.

Macro-economic policy, said Professor Krugman, could for example reduce unemployment in Germany by only some 2 percentage points.

There also remains great concern and confusion over the policies and strategies of the European Central Bank itself. One senior official at the International Monetary Fund said Europe's central bankers were wrongly

ECB watch

attaching a significant weight to monetary indicators in their public pronouncement, while effectively ignoring these data in their day-to-day policy decisions. This disjunction between policy and action, he said, was cause for serious concern.

Even among US central bankers there is some concern that the strict rules and numerical targets the ECB has set itself could interfere with the need to act with sufficient speed and flexibility. This would be particularly important if the recent global financial turmoil were to erupt again.

The best hope is that the ECB will continue to act as pragmatically as it did earlier this month, when European central bankers agreed in unison to cut interest rates from 3.3 to 3.0 per cent. Nothing in the ECB's pronounced strategy made that concerted action necessary.

The Financial Times' weekly table of economic indicators for the euro-zone will resume next week, in the edition of January 5, as part of our comprehensive coverage of the euro.

'Euro may be a success – but not for us'

By George Parker, Political Correspondent

Britain's opposition Conservative party yesterday conceded it was "perfectly conceivable" that the euro would be a success for some of its founding members.

But Francis Maude, shadow chancellor (treasury minister), insisted his party was justified in ruling out British participation in the single currency in this parliament and the next. The Conservatives want to see the euro operating "in good times and in bad" before deciding whether the UK should join the single currency.

The party will fight the next general election with a pledge to save the pound – a policy that would apply until the following election, which is expected to be held in 2005/6.

However, in a softening of the party's tone towards the euro, Mr Maude told the Financial Times he believed the project could be a success for key participants.

"Despite our deep reservations about whether Emu entry will ever be right for Britain, it is perfectly conceivable that for the 'core countries' of Euroland [France, Germany and Benelux nations] Emu will be a success," he said. "I certainly hope so."

He warned that there could be problems for other euro members such as Ireland, whose economy was overheating and for which lower interest rates could be dangerous.

The Conservatives argue that Britain's economy is similarly out of step with the "Continental core" of the euro-zone – and might remain that way for many years to come.

He said research by the House of Commons library concluded that a cut in UK interest rates of 3 percentage points (to bring it into line with the euro rate) would have to be accompanied by tax increases of £10bn ($17bn) – the equivalent of 5p (8 cents) on income tax – to calm inflationary pressures.

The party also has strong constitutional objections to British membership, with many MPs linking the survival of the pound with a defence of national sovereignty.

The launch of the euro is likely to be greeted with renewed demands from pro-European Conservative MPs for the party to reopen its mind to a possible early entry.

"It will be easy for people to get carried away in the euphoria that is bound to accompany the launch of the single currency," Mr Maude conceded.

Maude: 'deep reservations'

Issing sees no risk of recession

By Tony Barber in Frankfurt

Economic growth in the 11 nations adopting the single European currency will slow down in 1999 but there is no danger of a recession during the euro's inaugural year, an executive board member of the European Central Bank said yesterday.

Otmar Issing, formerly the German Bundesbank's chief economist, said the euro-zone would act as "an important island of stability for the global economy" so long as the region's gross domestic product grew next year by at least 2 per cent.

"The predictions for the euro-zone in 1999 all give one message: growth will clearly slow down, but we are not facing a recession," Mr Issing told a German news agency, VWD. "The outlook for prices is very favourable, and there is no danger either of deflation or of a revival of inflation. This means that 1999 will be characterised by price stability."

Most independent economists expect growth in Germany, the euro-zone's largest economy, to slow from 2.7 per cent this year to 2 per cent or less in 1999. Among the most frequently cited factors are falling export orders, the continuing impact of the Asian and Russian economic crises, and a decline in business confidence triggered partly by tax reform plans.

"Exports will weaken dramatically. They were until now Germany's economic motor," said the president of the Munich-based Ifo research institute, Karl-Heinrich Oppenländer.

The poor outlook for growth has caused some economists to ask if German unemployment will fall next year.

● Carrefour, the French retailer, said yesterday its shops would accept payments in euros by bank card or cheque from January 4, Reuters reports from Paris.

Carrefour will start double-pricing of goods on the shelves in February. Its hypermarkets with petrol stations will advertise the fuel prices in both currencies from March.

Issing: 'island of stability'

Rome acts to avert Jubilee year strikes

By Paul Betts in Milan

Italy's centre-left government and the largest left-wing trade union confederation have joined forces to limit strike action by the country's belligerent transport workers in 2000, when up to 50m pilgrims are expected to flock to Rome.

The festivities will embrace two coinciding events. One involves the Vatican's Jubilee, celebrated every 25 years since the 14th century. The other is the Eternal City's millennium celebrations.

Franco Bassanini, under-secretary at the prime minister's office, yesterday said the transport, labour and civil service ministers would meet soon after the New Year holidays to draw up proposals for new rules to prevent strikes disrupting public services during the Jubilee year.

Rome is expecting invasion by 40m-50m pilgrims for the Vatican celebrations alone. A religious event is expected to take place every three days during the whole of 2000. Every 12 days, Rome will host a mass Jubilee gathering attracting 300,000-2m people on each occasion, according to official estimates.

The high point is likely to be the World Youth Days in the middle of August 2000, when 28,000 coaches are due to converge on Rome.

The government and the Vatican have been worried for months that a series of ambitious infrastructure programmes will not be completed on time. Now they fear transport strikes could add to the nightmare.

Apart from the traditional militancy of transport workers, a total of 58 national wage contracts in the transport sector are due for renewal at the end of 1999. The biggest contracts will involve more than 110,000 railways workers, the staff of Alitalia, the national flag carrier due to be privatised in 1999, workers at Rome's Fiumicino airport, and about 16,000 bus and tram drivers.

The new government proposals would seek to persuade individual unions to complete the contract negotiations well before the Jubilee and to introduce a code of conduct to prevent small labour associations from calling strikes that could have repercussions throughout the transport system.

Last week, for example, just before Christmas, a union representing 1,300 out of the country's 12,000 railway station masters called a 48-hour strike that brought chaos to the railways.

Walter Cerfeda, a senior official of the Cgil labour confederation, also said the country needed "special rules for an event as special as the Jubilee".

But several other union representatives and spokesmen for the small Green party, which supports the government, and the hard-line Refounded Communism party have already accused the government of attempting to turn transport workers into scapegoats, should the celebrations flop. They said the authorities were alarmed because they had grossly underestimated the impact the Jubilee was likely to have, on not only Rome but the whole country.

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The voice of business heard around the world

How outgoing president Helmut Maucher got global institutions listening to the once fusty International Chamber of Commerce

By Frances Williams in Geneva

When Helmut Maucher, chairman of the Swiss foods group Nestlé, became president of the International Chamber of Commerce in 1997, he had one overriding objective: to make the voice of business heard in global decision-making.

As befits the boss of a company built on some of the world's most successful brands, Mr Maucher set about repackaging the ICC as the "world business organisation" and convincing an indifferent audience that its message was worth buying.

His first task was to transform the ICC itself. Founded in 1919, it was a worthy but fusty organisation with some 200 committees and an old-fashioned image that went with its venerable Paris headquarters. "You could almost smell the dust," says a Nestlé colleague.

Under Mr Maucher's direction the ICC has been streamlined, activities merged and chopped, and more effort put into formulating public positions on global issues including the promotion of international rules on investment, electronic commerce and other areas of interest to business.

Mr Maucher's personal network of business contacts was mobilised to recruit more industry leaders to the ranks of the ICC. It now has more than 7,000 member companies and associations in over 130 countries, representing many small and medium-sized companies as well as multinationals.

He also brought in Maria Livanos Cattaui from the Geneva-based World Economic Forum, organisers of the annual Davos symposium, to be the ICC's secretary-general. He even tried – but failed – to change the ICC's name to the World Business Organisation.

Two years on, as Mr Maucher prepares to hand over the ICC presidency to Adnan Kassar, a Lebanese banker, these efforts appear to have paid off. "We have established the ICC as the preferred dialogue partner for business with the United Nations and other international institutions," he says with some satisfaction. "We have convinced them that it is worthwhile for their work to take account of our views."

In addition to private meetings with top officials, the ICC has also become more involved in activities of UN and other international bodies such as the World Trade Organisation.

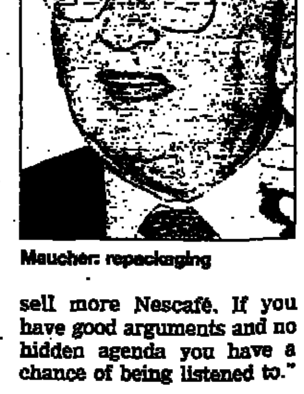
Over the past year the ICC has organised with the WTO a symposium on problems with customs ahead of likely negotiations in the next series of global trade talks. A meeting with WTO ambassadors is planned for early next year.

The ICC also undertook a joint survey with the UN Conference on Trade and Development of companies' investment plans in Asia following the crisis there. And in September it organised a "high-level" dialogue between industry leaders and top UN officials in Geneva which launched the so-called Geneva declaration, the ICC's (and Mr Maucher's) globalisation manifesto. Kofi Annan, UN secretary general, has been a strong advocate of greater involvement of business – and other parts of "civil society" – in the UN's work at all levels.

However, Mr Maucher, who is full of praise for the UN chief, says convincing some other senior UN officials that they should listen to business was far more difficult. It was and is not easy to overcome the widespread prejudice that business interests are necessarily inimical to UN goals.

That contrasts with the privileged position in UN counsels enjoyed by many pressure groups. "A lot of ideas get pushed in a hidden way so you cannot engage in debate," says Mr Maucher. "This is not democratic and not part of an open society. We should know who finances these groups and they should present their ideas openly."

Business has just as much right – more, in his view – to help shape global rules as pressure groups. "The ICC can speak with a certain moral authority because we're not pushing a particular business interest," he says. "We're not going to governments and pushing to sell more Nescafé. If you have good arguments and no hidden agenda you have a chance of being listened to."



Maucher: repackaging

Travel ban is placed on Bhutto

By Farhan Bokhari in Islamabad

Benazir Bhutto, Pakistan's opposition leader, was yesterday stopped from leaving the country in the latest sign that Prime Minister Nawaz Sharif's government was ratcheting up the pressure on her.

Ms Bhutto was about to board a flight from Karachi airport for Dubai to celebrate the New Year with her three children, who go to school there, when she was served with an official order banning her from travel abroad.

Her name had been placed on the Exit Control List (ECL) of individuals including politicians and businessmen who are barred from leaving the country, officials said. Opposition leaders quoted airport officials as telling Ms Bhutto that she was stopped on the grounds that she was on trial charged with corruption. However, she has been able to travel freely since her first court appearance last year.

"The government is trying to exploit the emotions of a mother by not allowing me to see my children. It's another black chapter," Ms Bhutto said. "My children have nothing to do with politics. The incident has shocked me. It has also exposed the ugliness of Pakistani politics."

The move came more than two years after Ms Bhutto was sacked by Farooq Leghari, the former president, over accusations that she and Asif Ali Zardari, her husband, had amassed millions of dollars from illicit dealings including bribes for government contracts. Ms Bhutto and Mr Zardari have denied the allegations.

Recently Mr Sharif's government has been *jolted by* newspaper reports in Pakistan and abroad accusing him and his family of graft and the purchase of real estate in London. Mr Sharif has denied the accusations.

The opposition, however, *has* demanded an independent judicial inquiry into the allegations against Mr Sharif. On Saturday, Ms Bhutto delivered a fiery speech in parliament accusing him of corruption.

Ms Bhutto's lawyers are expected to file an appeal today against the decision to stop her leaving the country. Analysts said it was possible she might win in court but the placing of her name on the ECL is likely to make the *political atmosphere* even more bitter.

Rashed Rehman, a political commentator, said: "In political terms, this amounts to a substantial escalation in the harassment of the opposition." He said the opposition would redouble efforts to campaign against the government.

Yacht race tragedy sparks criticism

By Gwen Robinson in Sydney

At least six deaths and numerous injuries in the Sydney to Hobart yacht race overshadowed its closing stages early today, amid controversy over why organisers did not delay the start of the race in response to forecasts of bad weather.

The contest for one of the most prestigious yachting honours became a fight for survival yesterday as nearly 60 people were winched from heavy seas in the largest maritime rescue operation in *Australian history*.

Yachts began sending distress signals on Sunday afternoon after they were hit by a *freak* gale and waves which one competitor described as the size of "two-storey buildings". Civilian and naval helicopters, search aircraft and vessels faced waves up to 20 metres high and winds of more than 150km per hour off Australia's south-east coast.

In a dramatic operation late on Monday, helicopters searching for five missing men saw a light at sea just as the search was called off for the night. Shortly afterwards, they winched two men to safety from a life-raft but learned three others on *it had been swept overboard*. The five, along with four other crew members, had abandoned their stricken vessel, Winston Churchill, on Sunday afternoon.

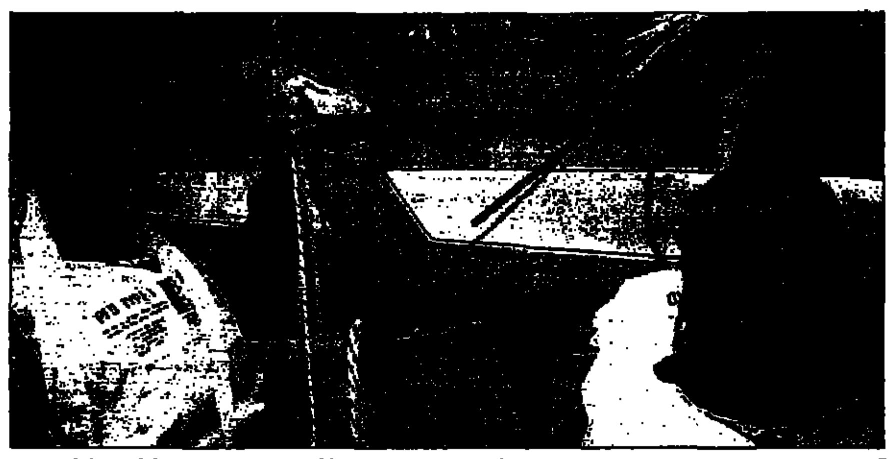
"Most of the crews are in survival pattern," said Kevin Lacey, a crewman from the yacht Innkeeper, which retired from the race. "They're not racing any more. It's a fight to stay alive out there."

Among those presumed dead was Glyn Charles, a British Olympic yachtsman, who was washed overboard from his 18m yacht, Sword of Orion, on Sunday night, and the three missing crewmen of Winston Churchill. Rescuers said there was "no *chance" that Mr Charles,* who was injured, could have survived more than 36 hours in the rough seas.

One survivor said the conditions were "like sailing in a washing machine". On Sunday, two men died on Business Post Naiad, an Australian yacht which lost its mast after being hit by a *10m wave. The skipper*, Bruce Guy, suffered a heart attack while a crewman, Phil Skeggs, drowned after becoming entangled in his safety harness.

The 54-year-old race has become a Christmas tradition. As suggested by its nickname, "Hell on High Water", the race has at times *run into stormy seas but had* previously claimed only two lives: in 1984 a man was washed overboard in gale-force winds and in 1989 a man died of head injuries after winds snapped a yacht's mast.

This morning as the leading yacht, Sayonara, headed for line honours in the race, *the flags festooning Hobart* were at half-mast. Fewer than 50 yachts among the 115-strong *fleet of* competitors remained in the race.



Crew of the stricken yacht Stand Aside photographed before their rescue yesterday AP

Sharp slowdown in Vietnamese export growth

By Jonathan Birchall in Hanoi

Vietnam in 1998 recorded its slowest rate of annual export growth since beginning its programme of economic reforms a decade ago, with the pace falling from around 22 per cent last year to just 0.9 per cent over the past 12 months.

According to official estimates, the country's total exports in 1998 were worth $9.4bn, while imports fell by 3 per cent to $11.39bn, mainly as a result of import restrictions.

Vietnam's problems were aggravated by low world oil prices, which offset an increase in the volume of oil exports of around 25 per cent to 12bn tonnes.

Shipments abroad of footwear and garments, which together make up Vietnam's principal manufactured exports, were virtually unchanged over the previous year, with an increase in sales to Europe offset by a fall in demand in Japan.

Regional demand has collapsed as a result of the Asian economic crisis: the value of Vietnam's exports to Japan, for example, is estimated to have fallen by 25 per cent this year.

Vietnam's vulnerability in the current crisis is heightened by the lack of a trade agreement with the US, which American officials say is now unlikely before 2001.

Exporters have also been hit by the effective appreciation of the Vietnamese currency, the dong, against its regional competitors.

A recent World Bank report noted that even though the dong had been gradually devalued by 17 per cent since the crisis began in June 1997, this had been "insufficient to offset gains in competitors' positions".

NEWS DIGEST

TURNAROUND FROM SHARP DECLINE

South Korea sees rise in industrial production

South Korea yesterday said its industrial output climbed 1.4 per cent last month, the biggest year-on-year rise recorded in any month so far this year. But the government said it was too early to be optimistic that an economic recovery was under way. The year-on-year rise in November's output compared with an 8.3 per cent decline in October, National Statistical Office figures showed. The office said overall indicators, including production, shipments from factories, wholesale and retail sales, orders of machinery and construction, improved last month.

Shipments from factories were down 3.1 per cent in November, compared with an 11.4 per cent decline in October and a 3.0 per cent drop in September. Domestic construction orders fell 35.6 per cent last month compared with a 51.9 per cent plunge in October. But domestic machinery orders slipped 5.1 per cent, against a 25.8 per cent drop in October. **Reuters, Seoul**

THAILAND TRADE

Exports fail to pick up pace

Thai exports are still falling in US dollar terms despite the baht losing about a third of its value over the past 18 *months*, official data showed yesterday. The Bank of Thailand said in its monthly report that Thailand exported goods worth $4.47bn in November, down from $4.49bn in October and $4.78bn in November 1997.

The country registered a *small* rise in its trade surplus to $1.11bn from $1.09bn in October but this reflected a continuing fall in imports as domestic demand collapsed. The economy is expected to contract by around 8 per cent this year after a *decline of 0.4 per cent in 1997*.

The government forecasts an economic improvement next year and accepts a recent International Monetary Fund prediction that Thai gross domestic product will grow by about 1 per cent next year. Much of Thailand's forecast growth is expected to come from export industries, which should be benefiting from the sharp depreciation of the baht since it was devalued in July 1997, triggering the Asian economic crisis. The central bank report also said that Thailand's current account surplus widened to $1.28bn in October, from $1.10bn in September and $700m in October 1997. **Reuters, Bangkok**

See Comment & Analysis: Fallen on dark side of life

SINGAPORE ECONOMY

Manufacturing output down

Singapore's manufacturing output shrank by 3.3 per cent in November compared with the same month last year, the Economic Development Board reported yesterday.

In the January to November period, output *fell by* 0.8 per cent year-on-year. Weak demand led the engineering sector to contract by 10 per cent in November, the petroleum refining industry by 6 per cent and the petrochemicals sector by 2.7 per cent. However, the pharmaceuticals sector expanded by 57.8 per cent as leading plants stepped up production to meet higher export demand.

The electronics sector *gained by* 0.4 per cent in November, meeting US and European demand for computers and telecommunications equipment. **T J Tan, Kuala Lumpur**

CHINESE INDUSTRY

State group losses increase

Losses at China's state-owned industrial enterprises rose 36.3 per cent year-on-year in the first 11 months of this year, according to a report showing the problems many state groups are having adjusting to a market economy. State-owned industrial enterprises registered losses of RMB78.84bn ($9.5bn) from January to November, the *Economic Daily*, a government-owned newspaper said.

According to an official survey of 58,000 state companies, 49 per cent of state-owned enterprises were losing money by the end of October this year, up 3 percentage points from the same period a year earlier. Among the loss-making state companies, 55 per cent were large and medium-sized enterprises, the survey conducted by the China Economic Monitoring and Analysis Centre showed. **James Harding, Shanghai**

Netanyahu to face further poll challenge

Ze'ev Binyamin Begin: announced candidacy for the premiership

By Avi Machlis in Jerusalem

Ze'ev Binyamin Begin, the only son of Menachem Begin, the late Israeli prime minister and a Likud founder, yesterday quit the party and announced his candidacy for the premiership in the latest challenge to Benjamin Netanyahu, Israel's prime minister.

Mr Begin, a stalwart Likud ideologue, accused the government of abandoning traditional Likud doctrines which maintain that all of the biblical Land of Israel, including the Israeli-occupied West Bank, is an integral part of the modern state of Israel.

In a fiery speech reminiscent of his father's style, Mr Begin lashed out at Mr Netanyahu's government for "caving in" to the Palestinians. "Territorial compromise cannot bring peace nor security," he said.

Mr Netanyahu's government recently froze implementation of the Wye River accord it signed in October, under which Israel agreed to transfer 13.1 per cent of the West Bank to Palestinian control.

Although Mr Begin is unlikely to beat Mr Netanyahu, his departure from Likud is a big blow to the prime minister, who has always derived support from Jewish settlers in the West Bank. Settler leaders are divided on whether to support Mr Begin, since some fear that he could split the country's right wing.

In a fiery speech reminiscent of his father's style, Mr Begin lashed out at the government for 'caving in' to the demands of the Palestinians

A Gallup poll last week showed Mr Begin could win 9 per cent of the vote in the first round of a four-way race including Ehud Barak, Labour leader, and Amnon Lipkin-Shahak, former army chief of staff, who is expected to announce his candidacy to lead a new centrist party. Mr Netanyahu would get 27 per cent, but would advance to the next round.

Labour and Likud delegates are still trying to agree an election date, although a Labour party lawmaker said last night both sides had tentatively agreed on May 17 for early elections for prime minister and parliament.

The Knesset (parliament) last week voted overwhelmingly for early elections after Mr Netanyahu failed to secure support for freezing the peace process.

Party leaders had been considering several dates after May 4, when the five-year interim period set in the Oslo peace accords ends, and Yassir Arafat, Palestinian Authority president, plans unilaterally to declare statehood. Labour leaders are trying to convince Mr Arafat to defer declaring statehood, since this could play into Mr Netanyahu's hands during elections.

Meanwhile, Ya'akov Neeman, who recently resigned as finance minister, urged parties to go to the polls as soon as possible, since an extended campaign would make it difficult to cut the budget deficit from 2.4 per cent of gross domestic product this year to 2 per cent next year as planned.

ISLANDS DISPUTE IDEA FLOATED IN TALKS

Plan for freeze on Argentina's Falklands claim

By Ken Warn in Buenos Aires

A plan to freeze Argentina's 165-year-old claim to the Falkland Islands has been floated in private discussions between Guido Di Tella, Argentina's foreign minister, and Mike Summers, one of the islands' legislative councillors.

The aim would be to put the Argentine claim on hold for up to 20 years, in exchange for the normalisation of communications and business links between the islands and Argentina.

These links were broken with the 1982 UK-Argentine conflict over the islands.

The sovereignty dispute continues to overshadow relations between Britain and Argentina. However, business and diplomatic ties between the two countries have strengthened rapidly since the resumption of formal relations in 1990, culminating in President Carlos Menem's trip to London in October.

The freeze on sovereignty was discussed during a hastily organised meeting between Mr Di Tella and Mr Summers in Montevideo, Uruguay, on December 18.

The two men dispute who raised the idea, with Mr Summers insisting that the proposal came from Mr Di Tella.

The plan was immediately rebuffed by the islands' legislative council, meeting before Christmas, due to Argentina's continued "threatening attitude", Mr Summers said.

However, a sovereignty freeze might be acceptable to islanders if it culminated in a binding plebiscite over the islands' future, effectively ensuring their right to self-determination, he added.

Islanders are unhappy over pending Argentine legislation threatening economic reprisals against oil companies and fishing boats operating off the islands without Argentine permission.

They are also concerned that Argentine insistence that flights to the islands should pass through Buenos Aires would give Argentina a stranglehold over air links.

The current air link with South America is due to end at the end of March when LanChile withdraws its weekly flights to Port Stanley in protest at the detention in London of the former Chilean leader, General Augusto Pinochet.

Freezing the Argentine claim as a way out of the diplomatic impasse has been discussed before, including during secret talks at Chevening, the country residence of the British foreign secretary, in January 1997.

The talks ended in failure, apparently amid divisions on the Argentine side.

Doubt over UN task in Angola

By Mark Turner in Nairobi

The weekend disappearance in Angola of an aircraft with 10 United Nations monitors on board has added to a growing debate about the future of Monua, the UN's observer mission in the country.

Diplomats and Monua officials say the organisation's current mandate, to oversee the implementation of the 1994 Lusaka peace agreement between the Angolan government and Unita rebel movement, has become almost untenable following the resumption of all-out hostilities between the warring parties earlier this month.

"I think it will be very difficult for Monua staff to stay where they are and perform any task," said a diplomat close to the organisation. "There will have to be a change in the concept and deployment of Monua."

Issa Diallo, the special representative of the UN secretary-general, is expected to present a mid-term review of Monua's mandate early next month.

"That report will be a milestone," said one diplomat. "It will set the parameters for the debate."

Unita and the Angola government renewed hostilities earlier this month, with heavy fighting around the towns of Kuito and Huambo, previously a Unita stronghold, in the country's central highlands.

Thousands of refugees have fled to Huambo, which remains in government hands, threatening a humanitarian crisis, according to aid agency officials.

The UN aircraft, with 14 people on board, went down in flames shortly after leaving Huambo on Saturday, crashing 40km away in Vila Nova, according to government reports. The cause of the disappearance remains unclear.

The World Food Programme has grounded all aircraft operating in the region until tomorrow pending review and Mr Diallo has called for a ceasefire to enable a search and rescue mission to be mounted.

"In our hour of need we appeal to Unita to respond by establishing contact with me and provide information about the crash, as well as giving Monua assurance of safe passage to the location of the crash," he said.

The disappearance comes amid growing criticism by the Angolan government that Monua stood aside while Unita flouted the Lusaka peace agreement and rearmed.

In a recent radio statement it attacked "the passive and complacent manner in which the international community witnessed Unita's repeated failures to adhere to the Lusaka Protocol, despite complaints made at the appropriate time".

The UN has conceded that the government has "fundamentally complied" with the Lusaka protocol, while Unita has refused to concede territory and turn over its weapons.

Diplomats said that discussions on a new role for the UN were at preliminary stages but that so far there had been no overt calls for a military-backed peace-keeping mission. "We have to make peace first, before we can keep it," said a Monua official.

Accord nearer on Mexico budget

By Andrew Downie in Mexico City

With just four days to go before they must approve next year's budget, legislators negotiating Mexico's 1999 financial package have tentatively agreed to shelve a contentious new tax on telephone companies, a senior legislator said yesterday.

The accord, reached early yesterday after meetings between Treasury officials and legislators from the ruling Institutional Revolutionary party (PRI) and the right-of-centre National Action party (PAN), would remove a big stumbling block to a budget agreement.

Legislators on the lower house's treasury commission were scheduled to meet later yesterday to begin discussions on how to fill the estimated $1.1bn shortfall that would result if the government's proposed increases in telephone charges were rejected.

"The initial agreement has [illegible]," said Fauzi Hamdan, a PAN deputy who attended [illegible]. If a final accord [illegible] later in the day it would be presented today to [illegible] house.

Opposition parties have strongly opposed the telephone tax, which the government proposed to replace revenue lost by falling world oil prices. Those opponents have been backed by big telecommunications companies such as Telefonos de Mexico (Telmex).

[illegible] budget, which must be approved by Thursday if the government is to avoid unprecedented constitutional chaos, is the most bitterly contested in 20 years, and the provision to raise phone rates is among the most contentious measures. The proposed rises have met widespread disapproval, with the PAN insisting it will not vote for a budget containing an increase in telephone charges and housewives taking to the streets in protest.

NEWS DIGEST

WAVE OF HOSTAGE-TAKING CONTINUES

Yemen tribesmen kidnap 16 western tourists

Tribesmen yesterday kidnapped 16 western tourists, including 12 Britons, who were visiting southern Yemen, diplomats said. The tourists also included two Americans and two Australians. They were seized in the early afternoon by tribesmen in the southern province of Abyan.

One diplomat said the tourists had been travelling in five vehicles, but one carrying a Yemeni guide and a British man escaped. The two informed the involved embassies of the kidnappings.

The kidnappings took place three weeks after tribesmen abducted four German tourists, including three women. Yemeni officials said the Germans were seized by members of the Bani Dabiyan tribe and were being held in Marib province 170km east of the capital. The Bani Dabiyan tribe vowed in a written pledge to Yemeni president Ali Abdullah Saleh in June that it would help the government put an end to abductions.

More than 100 foreigners, including several diplomats and oil workers, have been abducted since 1992, but most have been released unharmed. **Reuter, Sana'a**

BANK OF ISRAEL

Plan for new legal framework

A public committee yesterday submitted proposals for a new legal framework for the Bank of Israel that would diminish the power of the central bank governor by creating a monetary policy committee.

Under the proposals, unlikely to be legislated for until after the forthcoming national elections, the monetary committee would comprise the governor, his deputy, and three government-appointed economic experts.

"Israel's desire to integrate into developed world markets and especially the European Union requires it to adapt its economic [illegible] these countries and to place high priority [illegible]," said the public committee headed by [illegible], former supreme court justice. The business [illegible] pressed for reforms to protest at the tight monetary policy imposed by Jacob Frenkel, bank governor, [illegible] against inflation. **Avi Machlis, Jerusalem**

ALGERIAN POLL

FIS backing for election

Algeria's outlawed Islamic Salvation Front (FIS) yesterday threw its weight behind the coming Algerian presidential election and pledged to play a large part in the campaign. The vote has been set for April following a surprise decision by President Liamine Zeroual to stand down.

"We will work towards making these [elections] a genuine beginning of a just and global political solution in the context of national reconciliation and of a return to peace and security in the country...," the FIS foreign co-ordinating council said in a statement released in France.

The FIS, Algeria's largest opposition group, was banned and went underground after authorities cancelled a general election in 1992 in which radical Islamists held a commanding lead.

More than 65,000 people have been killed in bloody strife involving Islamic militants in Algeria since the aborted 1992 vote, according to western estimates. **Reuters, Paris**

CHILE HOSTS EVENT

World scout jamboree opened

Chilean president Eduardo Frei yesterday opened the 19th World Scout Jamboree, bringing together about 34,000 scouts and organisers from 160 countries. The jamboree, laid out on a 3,000-hectare site, is the first to be held in Latin America. In a break from tradition, members of the public will not be allowed on to the site, but can observe from lookouts around the main camping area.

The jamboree, which is reported to have cost $25m to stage, has presented a logistical headache to metropolitan and regional police, deployed in their thousands to control traffic heading to the event and holidaymakers using the same route on journeys south to the country's popular lake district and beaches. **Mark Mulligan, Santiago**

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN					GERMANY				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1987	105.6	100.7	103.9	98.4	76.1	101.3	92.5	103.1	100.0	122.9	100.1	95.0	107.0	107.1	110.9
1988	109.9	103.2	106.8	100.2	71.0	102.3	92.3	107.8	96.0	131.0	101.4	96.2	110.0	106.8	109.9
1989	115.2	108.5	109.9	101.9	74.9	105.1	94.2	114.0	96.8	123.5	104.2	99.3	112.9	108.0	107.5
1990	121.5	113.9	113.5	104.9	73.2	108.3	95.7	120.1	99.7	108.2	107.0	101.0	117.9	110.3	108.9
1991	126.6	116.3	117.3	108.4	74.1	111.9	96.8	124.2	103.9	113.2	110.9	103.4	125.3	109.6	107.5
1992	130.4	117.7	120.1	108.4	74.0	114.0	95.9	125.6	112.8	114.5	116.5	104.9	139.1	115.3	110.0
1993	134.3	119.2	123.1	108.6	76.4	115.4	94.3	125.8	118.8	131.9	121.7	105.1	148.2	119.4	111.3
1994	137.8	119.9	126.5	107.9	74.1	116.2	92.6	128.4	118.5	137.3	125.1	105.7	152.4	112.1	109.8
1995	141.7	122.2	129.7	105.7	68.7	115.9	92.0	132.5	115.8	138.3	127.4	107.5	159.0	110.8	114.7
1996	145.8	125.4	133.9	104.8	73.4	115.8	90.4	135.8	113.2	117.7	129.3	107.1	162.7	109.7	109.9
1997	149.2	125.9	138.0	103.7	79.1	117.4	91.0	139.7	110.0	111.5	131.5	108.2	164.8	103.1	104.7
4th qtr.1997	1.9	−0.7	3.3	0.7	80.2	2.1	1.1	1.8	1.8	108.1	1.8	1.1	1.0	−6.1	104.2
1st qtr.1998	1.5	−1.6	3.0	1.4	82.1	2.1	0.5	0.0	3.8	106.9	1.2	0.6	1.2	−5.9	104.0
2nd qtr.1998	1.6	−0.8	2.8	1.3	83.4	0.6	−1.9	−0.2	7.7	100.8	1.3	0.1	1.7		104.8
3rd qtr.1998	1.6	−0.7	2.4	1.4	85.2	−0.1	−1.9	−1.9	7.9	97.6	0.8	−0.7	1.8		106.3
December	1.7	−1.2	3.1	0.8	81.6	1.8	0.9	1.5	1.5	105.3	1.8	1.1	1.2	−6.2	104.2
January 1998	1.6	−1.7	2.8	0.8	82.4	2.0	0.9	−0.4	3.4	106.5	1.3	0.7	1.2	−5.2	104.4
February	1.4	−1.5	3.1	1.9	81.6	2.0	0.4	0.2	3.4	106.5	1.1	0.7	1.3	−6.2	104.0
March	1.4	−1.5	3.1	1.5	82.4	2.2	0.1	0.3	4.7	106.0	1.1	0.8	1.2	−6.3	103.5
April	1.4	−0.9	2.9	0.9	82.7	0.7	−2.0	−0.2	6.1	103.7	1.4	0.3	1.7	−4.2	103.8
May	1.7	−0.8	3.0	0.9	83.1	0.8	−1.9	−0.1	11.0	100.9	1.3	0.1	1.7		105.1
June	1.7	−0.7	2.7	1.9	84.4	0.4	−1.9	−0.2	6.0	97.8	1.2	−0.1	1.8		105.1
July	1.7	−0.3	2.1	1.9	85.1	0.0	−1.9	−2.4	8.1	97.5	0.9	−0.4	1.6		105.4
August	1.6	−0.8	2.3	0.9	86.1	−0.1	−1.9	−2.7	8.3	95.3	0.8	−0.8	1.9		105.6
September	1.5	−0.9	2.8	1.4	84.4	−0.1	−2.0	−0.1	7.4	100.0	0.8	−1.0	1.9		108.0
October	1.5	−0.7	2.0		80.5	0.4		0.0		108.8	0.7	−1.2	1.9		107.1
November	1.6	−0.7	1.9			1.0					0.7	−1.6			

	FRANCE					ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
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1988	108.8	103.5	111.5	104.1	102.1	116.5	105.7	118.4	108.5	100.9	113.0	108.7	126.2	108.8	101.9
1989	112.6	108.7	115.8	105.2	99.7	124.2	112.0	125.6	113.8	105.1	121.8	113.9	137.2	114.0	100.5
1990	116.5	107.7	121.5	109.6	102.9	131.7	116.2	134.7	122.5	111.9	133.3	121.0	150.1	121.6	101.4
1991	120.2	106.4	127.1	113.4	100.7	140.3	120.0	147.9	134.2	113.1	141.2	127.5	162.4	127.9	104.4
1992	123.1	105.3	132.3	115.6	104.2	147.7	122.3	155.9	138.8	109.5	146.4	131.5	173.1	128.4	100.9
1993	125.6	103.0	135.6	118.1	106.6	153.9	126.9	161.6	145.8	95.2	148.7	136.7	180.9	127.9	93.1
1994	127.7	104.2	138.2		106.1	160.0	131.6	167.0	139.9	93.3	152.4	140.1	189.5	127.9	94.1
1995	130.0	109.5	141.5		106.1	168.6	142.0	172.2	139.6	80.3	157.6	146.0	198.0	132.6	90.7
1996	132.6	106.7	144.9		106.2	175.0	144.7	175.3	146.8	101.9	161.5	149.8	206.8	139.6	93.6
1997	134.2	105.1	149.0		102.1	178.2	146.6	181.6	148.7	102.7	166.5	151.5	215.8	144.4	109.4
4th qtr.1997	1.2	0.9	2.8	n.a.	102.1	1.6	1.5	3.3	−1.2	102.7	3.7	0.7	4.8	4.2	112.1
1st qtr.1998	0.7		2.6	n.a.	100.7	1.7	1.1	2.1	−5.7	102.2	3.4	0.8	5.1	5.8	114.2
2nd qtr.1998	1.0		2.4	n.a.	101.7	1.8	0.6	3.1	−1.8	103.2	4.0	1.0	5.2	4.6	113.6
3rd qtr.1998	0.7		2.0	n.a.	102.5	1.8	−0.2			105.6	3.3	0.5			111.7
December	1.1	n.a.	n.a.	n.a.	102.1	1.5	1.4	3.2	n.a.	102.8	3.8	0.8	4.7	4.2	113.8
January 1998	0.5	n.a.	n.a.	n.a.	100.2	1.6	1.2	1.6	n.a.	102.6	3.3	0.4	4.9	6.0	113.9
February	0.7	n.a.	n.a.	n.a.	101.0	1.8	1.3	1.7	n.a.	102.1	3.4	0.5	5.1	6.1	113.5
March	0.8	n.a.	n.a.	n.a.	101.0	1.7	0.9	2.8	n.a.	102.1	3.5	0.9	5.5	5.2	115.2
April	1.0	n.a.	n.a.	n.a.	101.3	1.8	0.9	3.1	n.a.	102.3	4.0	1.0	5.1	5.0	115.3
May	1.0	n.a.	n.a.	n.a.	102.1	1.7	0.6	[illegible]	n.a.	103.6	4.2	1.0	5.4	4.9	111.6
June	1.0	n.a.	n.a.	n.a.	101.9	1.8	0.4	3.1	n.a.	103.9	3.7	1.1	4.9	4.0	113.8
July	0.8	n.a.	n.a.	n.a.	100.7	1.8	0.3	2.4	n.a.	104.5	3.5	0.8	5.4	4.8	114.0
August	0.7	n.a.	n.a.	n.a.	101.9	1.9	−0.3	3.0	n.a.	104.9	3.3	0.5	4.6	4.1	113.2
September	0.5				104.8	1.8	−0.5			107.2	3.2	0.3			94.4
October	0.4				103.9	1.7	−0.9			106.6	3.1	0.1			103.1
November						1.5					3.0				

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

Siemens optimistic on China despite difficulties ahead for foreign investors

'We all believe in the future of the Chinese market.' **James Harding** talks to Ernst Behrens, who oversees operations there

Ernst Behrens, the president of Siemens in China, says long-term investors come to China with their eyes open.

"We all believe in the future of this market," he says, "and, as much as we would like certain different conditions in operations and profitability, we are all aware of the importance of this market and we make the necessary investment in terms of manpower and capital."

Siemens has invested more than most European companies in China.

But the question facing the German engineering and electronics group, like many other international investors that have made a "long-term" commitment to China is when – even whether – their strategic investments will pay off.

Most of Siemens' 45 joint ventures in China are profitable but Mr Behrens acknowledges: "We still talk about our strategic future."

Mr Behrens says: "If people would have told us 10 years ago what we would have been able to do today, nobody would have believed it...great progress has been made over the past years, with regard to operational concerns in China." Siemens opened its representative office in Beijing in 1982.

However, the immediate reality is that business conditions in China have been getting tougher over the past year.

Indeed, there is a sense among a number of foreign investors that the prospects of realising their longstanding, "long-term" ambitions of China-generated profits are not getting any nearer.

Mr Behrens agrees that the commercial environment has become markedly more difficult since last year, noting the challenge arising from more competent and more competitive local Chinese companies.

"Western companies have been downloading know-how and technology into China intensively in the last eight to 10 years," he says.

"Of course it has to bear fruit and it does. I am certain we will be confronted with Chinese competition in the same way as we are confronted with Japanese, Korean and western competition today in five or 10 years... we are generating Chinese competition, but we cannot be afraid of it."

Downward pressure on prices has been particularly keen in the power machinery industry, where "margins [are] so small that the business becomes very difficult", the white goods industry, which has "not been so encouraging", and the build-operate-transfer (BOT) projects market, which has offered up no new opportunities for Siemens partly because "if regulations are such that it does not pay you the returns later on...don't do it".

"Are there high prices anywhere in China now?" Mr Behrens asks. "A few consumer products, maybe, but not in industrial products."

The rise of competitive Chinese manufacturers represents a challenge but was an inevitable feature of the country's economic development.

An added concern for foreign investors in recent months have been the signs that the government may actively favour domestic companies and prevent international manufacturers from competing on an equal footing.

The telecommunications sector, where Chinese companies have rapidly developed goods and services comparable with foreign competitors, has sent a worrying signal.

Beijing has drawn up two documents outlining ways of reducing foreigners' share of the mobile phone equipment market and helping Chinese companies win control of the market.

Mr Behrens understands the dual pressures on the Beijing leadership: "The government has to find a way on the one hand to satisfy the expectations of foreign investors and on the other to safeguard the local industries, before it is too much dominated by foreign operations."

The head of Siemens China is also frustrated by the lack of Beijing's progress towards World Trade Organisation membership.

"We would have wished that China would have joined the WTO by the year 1999...it is somewhat further away than it appeared at the beginning of this year, which we regret," Mr Behrens says.

The stricter implementation of foreign exchange controls has been another irritant felt acutely by large international companies.

Thomas Doeke, executive vice-president of Siemens China, says: "We have seen a tightening of controls. Things that were approved in a couple of days can now take a couple of months."

While foreign investors wait for China to realise its long-awaited potential, the focus has shifted to cutting costs and raising profitability.

"We will not put up another 40 joint ventures in the next 10 years. Basically all the technologies that we want to bring in we have here," says Mr Behrens. "Now it is all set up and we come into the second phase of operation in China...we have to look into profitability and processes."

Siemens China will concentrate on asset management, reducing inventories and receivables. "It is getting tougher in China to collect money. Collecting money will be one of the key issues...for optimising capital," says Mr Doeke.

But Siemens maintains its "long-term" ambitions. Mr Behrens says: "We are not deterred in any way first by the Asian crisis and second by the somewhat difficult internal conditions within the Chinese economy. We will just go ahead."

Eni
Global Offering ENI 4
1,137,000,000 ordinary shares
ITL 13,000 billion
Joint Global Coordinator

+

IRI
Private Placement ALITALIA
27,600,000 ordinary shares
ITL 787 billion
Joint Global Coordinator

+

Alitalia
Capital Increase
360,306,706 ordinary shares
ITL 1,000 billion
Joint Global Coordinator

+

Saipem
Global Offering
115,000,000 ordinary shares
ITL 1,140 billion
Joint Global Coordinator

+

UNIM
UNIONE IMMOBILIARE
Listing
Advisor and Sponsor

+

BANCA POPOLARE DI VERONA
BANCO S. GEMINIANO
E S. PROSPERO
Listing
Advisor and Sponsor

+

ST MICROELECTRONICS
Global Offering
19,000,000 ordinary shares
ITL 2,392 billion
Lead Manager Public Offering and Sponsor

+

EUROPEAN INVESTMENT BANK
Euro Bond Placement
Euro 300 million
Lead Manager and Bookrunner

+

EUROPEAN INVESTMENT BANK
Euro Bond Placement
ITL 1,000 billion
Lead Manager and Bookrunner

+

WORLD BANK
WORLD BANK
Euro Bond Placement
Drachma 35 billion
Lead Manager and Bookrunner

+

MEDIOCREDITO CENTRALE
Equity-linked Public Offering
5 years
ITL 185 billion
Lead Manager

+

MEDIOCREDITO LOMBARDO
Zero Coupon
30 years
ITL 400 billion
Lead Manager

+

Banco Ambrosiano Veneto
Upper Tier-II
10 years
ITL 250 billion
Sole Manager

+

CREDIOP
Comodity-linked
5 years
ITL 100 billion
Lead Manager

+

IMI BANK (LUX) S.A.
Euro Bond Placement
Zloty 300 million
Arranger

+

MultiMedica
Start-up Financing
4 years
ITL 9 billion
Arranger

+

Chiari & Forti
Syndicated Loan
5 years
ITL 36 billion
Arranger

+

INA
Spin-off Real Estate
Financial Advisor

+

swissair
Acquisition minority stake in AIR EUROPE
Financial Advisor

+

acea
AZIENDA COMUNALE ENERGIA AMBIENTE
COMUNE DI ROMA
Privatisation
Financial Advisor

+

TURIN HOTELS INTERNATIONAL
Acquisition
SGAS Hotels
Financial Advisor

+

CIRIO
Acquisition
DEL MONTE Europe
Financial Advisor

+

Skandia
Sale
UNIASS and MULTIASS
Financial Advisor

+

BUZZI CEMENTI
Takeover Bid
UNICEM
Financial Advisor

+

MEDIASET
Valuation
TELE CINCO
Financial Advisor

ERG

+

BANCA D'INTERM...

THE HIGH...

This announcement appears as a matter of record only.

هكذا من الأصل

POLITICS PRESS SECRETARY ACCUSED OF BLOWING WHISTLE ON HOME LOANS AFFAIR THAT LED TO MINISTERS' DOWNFALL

Chancellor's spokesman incurs Blair's wrath

By George Parker, Political Correspondent

The prime minister' office yesterday heaped the blame for the government's disastrous Christmas on Charlie Whelan, the chancellor of the exchequer's controversial press secretary.

Tony Blair suspects Mr Whelan was behind the leaking of details of Peter Mandelson's £373,000 ($626,640) home loan from Geoffrey Robinson, which resulted in the resignation of both ministers. Mr Mandelson was chief trade and industry minister, and Mr Robinson was paymaster general at the Treasury.

Gordon Brown, the chancellor, is determined to retain the services of his spokesman, who has denied any involvement in the leaking of the story.

Mr Whelan's survival will be a test of political strength between the prime minister and his chancellor, and threatens further to destabilise the administration.

Jack Cunningham, Mr Blair's cabinet "enforcer", was yesterday despatched to deliver a stern dressing down to ministerial aides who pursued "their own agendas".

Although Mr Cunningham declined to identify Mr Whelan it was clear that the message was aimed at the outspoken Treasury spokesman.

"Unauthorised, anonymous briefings have caused trouble for the government, are causing trouble, and have to stop," he said.

Mr Cunningham said the damaging briefing did not come "exclusively from any one particular source". Conservatives interpreted that as meaning that a lot of it did.

Meanwhile, a senior official from the prime minister's office was quoted yesterday as saying it would not be held to ransom "by one little oik".

However, if Mr Whelan was forced out of the government, his scope for revealing embarrassing political secrets could be greatly enhanced.

With Mr Mandelson seething on the backbenches in the House of Commons, and bad blood building between the prime minister and the Treasury, the prospect of the government being damaged by further feuding is growing.

Mr Brown's power base at the Treasury would be severely damaged if he lost Mr Whelan as well as Mr Robinson, who resigned as paymaster general last week.

Mr Blair has so far failed to find a ministerial replacement to fill the gap in Mr Brown's team, and has departed for a family holiday in the Seychelles.

The delay in finding a replacement is unusual, and reflects the fact that the government is already up to its limit for ministerial salaries.

Mr Robinson worked without pay, and his replacement at the Treasury would require another department to sacrifice a ministerial post – a move Mr Blair may be unwilling to countenance in the current climate.

Meanwhile, Francis Maude, shadow chancellor, yesterday demanded details of the extent to which Mr Brown topped up the salaries of his staff before the 1997 general election using funds from Mr Robinson.

Malcolm Bruce, Liberal Democrat Treasury spokesman, said Mr Blair must get rid of Mr Whelan if he was found to be behind Mr Mandelson's downfall.

Unions chief warns of looming deflation

By Robert Taylor, Employment Editor

The UK will have the lowest growth rate of any European country, with a real danger of deflation, John Monks, Trades Union Congress general secretary, has warned.

"It will be painful for us outside European economic and monetary union," he said.

The TUC expects unemployment to climb by at least 400,000 over the year, mostly in the manufacturing sector where trade unionism remains relatively strong. As a result Mr Monks says the TUC is budgeting for a 2 per cent net decline in union membership, which will take the overall figure to less than 30 per cent of workers for the first time since the 1920s depression.

But his main worry is the UK's self-exclusion from the euro which he believes will precipitate exchange rate instability and a "very uncomfortable relationship" with the European Union.

Mr Monks also sees a looming difference between the UK government and the TUC over EU plans to insist that companies employing 50 or more workers create information and consultation committees. Tony Blair, the prime minister, remains opposed to such an idea while the TUC gives it a high priority.

"The government sees such bodies as Trojan horses for trade union representation, but they are part of best practice in the most successful of UK companies," he says.

Mr Monks is distressed that the government seems unwilling to accept that the unions have modernised and favour social partnership with companies. He remains angry that a recent discussion paper on competitiveness had nothing to say about the role trade unions might play in improving business performance.

Flushed with environmental success, crew prepares for final voyage

Chris Tighe reports from aboard the MV Northumbrian Water which will take its last cargo of sewage sludge to sea this week

As last voyages go, the final sea dumping trip of the sewage sludge barge MV Northumbrian Water is short on romance.

Captain Steve Bains and his crew have the kind of job many people prefer not to think about.

But before the new year Captain Bains and his men will earn a footnote in environmental history when they discharge the last cargo of sewage sludge off the coast of north-east England, just before European legislation outlaws the practice.

"We are the environmentally friendly end of your toilet and proud of it," says chief officer Martin Allison.

Not all Europeans view sewage sludge dumping so benignly. Under the 1992 Urban Waste Water Treatment Directive, agreed by the 1987 North Sea Conference in London, sewage sludge disposal off coasts throughout Europe must stop by midnight on December 31 1998. Since most of those continental European countries with comprehensive sewage collection services already favour incineration, landfill or agricultural use, the UK is among the few affected by the ban.

British sewage companies have spent about £500m ($840m) over the last five years on changing how they deal with sewage sludge because of the directive. Most have already stopped sea dumping.

But if tides and winds permit, Captain Bains is planning a last dumping trip on December 31 from the River Tyne to the disposal ground, four miles off Whitley Bay, with his cargo of 1,350 tonnes of Geordie sewage.

For merchant seamen, who normally spend months away from home at a stretch, a five-days-a-week job on the MV Northumbrian Water, getting back home each night, seems quite appealing.

Northumbrian, which has dumped sludge at sea since the 1970s, has regularly received inquiries from seamen keen to get a job on the boat.

Each week, she carries out between seven and nine round trips, each four hours long, from the Howdon sewage treatment works on the Tyne to the Ministry of Agriculture, Fisheries and Food-approved dumping ground, plus one longer trip a week from the Portrack treatment works on the river Tees.

Her cargo, held in tanks and discharged with the help of air blowers, has undergone primary treatment before being piped on to the barge.

Captain Stephen Bains: does not get sick – 'just sick of the sea' Stuart Outterside

This means it has been screened to remove paper, plastic, rubber, metal, false teeth, dead animals and cotton buds. Then it settles in tanks at the treatment works for eight hours, so the heavier matter sinks.

"It's the same as making coffee in a cafetiere," says Northumbrian Water's head of corporate affairs Andrew Panting.

This concept does not trouble Captain Bains, although he is aware of the need for caution because of sewage gases.

No, he does not get sick – "just sick of the sea."

However, carrying out emergency repairs to the sewage tank valves which must open to release the sewage in which they are immersed is not a popular job. "I made the mistake of telling my wife about it and she kept away from me for a fortnight," sighs Mr Allison.

What to do with sewage sludge is a global issue. Incineration, landfill and agricultural use are not without problems.

The Japanese, says Mr Panting, have even tried making jewellery from vitrified sewage. "It's known as kraptonite." In engineering terms, sewage is not the same worldwide. Japanese sewage sludge, for example, is high fibre, low fat. Geordie sewage is high fat, low fibre.

Because of the 1992 European directive, by 2005 all but minor sewage discharges in the UK must undergo at least secondary treatment, which means introducing bacterial micro-organisms. The bacteria remove the liquid's polluting potential, making it more acceptable for discharge into rivers. Compliance is costing more than £6bn in England and Wales alone.

Northumbrian has built a £250m-plus complex, Bran Sands, on the Tees, comprising an effluent treatment works for Teesside and a regional sludge treatment centre where Europe's biggest tumble dryers have just begun to turn the sludge into pellets for agricultural and land reclamation use.

In a further refinement, it is designing a pilot plant that will heat the pellets to 850 degrees C. This will release methane to create the gas which drives the tumble dryers to make more pellets. The aim is, simultaneously, to tackle the sewage disposal problem and in doing so produce ash, for use in breeze block manufacture, and electricity.

So Northumbrian's sludge barge men will still have jobs. After the sea dumping ends, the MV Northumbrian Water, assisted by recently acquired MV Dalmarnock, will be needed to ferry all Tyneside's sewage sludge to Bran Sands.

APPOINTMENTS

Moments of delight and surprise

William Packer nominates his favourite – and least favourite – shows from what has been a good year for art

To say that this past year, so far as the visual arts are concerned, has been much as any other is not to confess myself world-weary, blasé, and bored by it all. Disappointed, irritated, frustrated? Yes, of course, but hardly bored in a field so infinitely varied. As always, from Mayfair to Manhattan, there have also been many compensating moments of real delight and satisfaction, whether as familiar pleasure or surprise.

To start with that old whipping-boy, the Tate, and the Turner Prize, still fresh in the mind. The award to Chris Ofili (he of the scatological folk-hero art, all set about with elephant dung), together with his autumn retrospective at the Serpentine, marked for me the low point of the year, made lower perhaps for having for the first time in 14 years been made in the name of painting. There: that is the wooden spoon out of the way – which he shares only with Anthony Gormley, whose grotesquely pretentious mannikins cluttered up the Royal Academy's forecourt all summer.

The wooden spoon goes to the Turner Prize; but Bonnard and Sargent were also at the Tate

But all that said, how then can we really set in stone our attitude to an institution that, at the same time, is bringing us the great Sargent in all his glory, that brought us Bonnard no less glorious in the spring; and in the summer gave us Lucian Freud in his late vigour, and paid admirable if belated tribute to Patrick Heron? The Tate's Bonnard and Sargent exhibitions could each lay reasonable claim alone to being the best exhibition in even an exceptional year.

We sometimes write off the Hayward Gallery with too pat a prejudice as well. Its *Dressing the Century* this autumn may have proved a waste of a good idea in its attempt to examine the relation of art to fashion, but its spare celebration of Francis Bacon in the spring was a minor triumph. The Royal Academy has had by its standards a fairly unsensational year, yet Chagall, seen in love through his years in Russia during and after the first world war, was a quiet revelation; the Summer Show was its usual engaging self; and the *Art Treasures of England* was a timely polemical celebration of Britain's straitened provincial museums, if only our masters were acute enough to take the point. Picasso's ceramics turned out to be a substantial and enjoyable treat, in defiance of expectation.

As for the National Gallery, if its study by Jonathan Miller of the depiction of reflection in works of art was, in the event, an over-literary, albeit entertaining statement of the obvious, its smaller studies of Van Eyck in the spring and Canaletto's Venice in the summer were generous recompense. So too it has been at the V & A, where the Poster exhibition may have been another wasted opportunity, but the current double-bill, of Aubrey Beardsley, the decadent illustrator, and Grinling Gibbons, the virtuoso carver, is quite remarkable.

Elsewhere in London we have had the Dulwich Picture Gallery scooping everyone with the first retrospective in the UK of the work of Pieter de Hooch, Vermeer's contemporary and rival. The Estorick Collection has set itself up in north London as a centre for the study and presentation of Italian modernism, and a most welcome and necessary addition it is. *The Queen's Gallery* at Buckingham Palace has given us the drawings of Michelangelo, the British Museum those of Claude Lorrain. Less happily the Serpentine, magnificently refurbished, re-opened with the pioneer conceptualist, Manzoni, more vacuous now than he seemed 40 years ago, and followed him with Cornelia Parker, his worthy heir with her bits of fluff and stretched spoons.

With so much on in public galleries in London, let alone the regions and abroad, the private galleries get too easily overlooked. Nevertheless, one of them, Timothy Taylor, put on what was for me easily the best small show of the year: the handful of *large paintings variously of* the Thames and its estuary, that the late Michael Andrews was working on in the year up to his death in 1995.

Other remarkable shows at various times throughout the year were the Gerhard Richter at Anthony d'Offay; Bernard Cohen and Terry Frost at Flowers East; Patrick Caulfield and William Turnbull at Waddington; Peter Phillips at Thomas Gibson; Alan Green, Edwina Leapman and Roger Ackling at Annely Juda; Maurice Cockrill at Purdy/Hicks; Shani Rhys-James at Graham Paton; Jock MacFadyen and Humphrey Ocean at Kapil Jarawala; Mary Potter at The Fine Art Society; and Paul Huxley at Jason & Rhodes.

I would also recommend Albert Irvin at Gimpel Fils; David Tindle at the Redfern; and Pauline Boty at The Mayor and Whitford galleries – all of them still on.

Abroad, and out of London too, have had their moments, and as good as any was the opening of the new Gemaldegalerie in Berlin – not so much for architecture, which is something of a curate's egg, but for the chance to see the city's quite extraordinary collections of Old Master paintings of all schools reunited at last under one roof, after the physical and political separations of 58 years. In Venice, Picasso in the 10 years after 1914, at the Palazzo Grassi, *was as choice and pertinent* a show as one could wish, fixing the artist in a period of peculiar interest.

In Paris there has been the usual succession of wonderful things, and at the Musée d'Orsay especially, with its shows closely focused upon Monet and Manet last spring, and their mutual interest in the Gare St Lazare, and now upon Van Gogh in his relation to Millet. I missed Late Delacroix, at the Grand Palais last summer, but was delighted to catch up with it in Philadelphia. The Gustave Moreau centenary show now at the Grand Palais is a fascinating and useful reappraisal, and the Lorenzo Lotto next door, and the Tiepolo at the Petit *Palais each in its way magnificent*. The hunting paintings and drawings of Desportes, painter at the Court of Louis XIV, at the Mona Bismark Foundation, was for me a delightful discovery.

Burne-Jones in Birmingham, Dali in Liverpool and William Gillies in Edinburgh have all been of real and particular value. In Brussels, the Magritte retrospective was an exhaustive yet entirely engrossing exercise, and the survey at Bruges of the intermediate period between the early and the Baroque phases in Flemish painting, *From Memling to Pourbus*, a revelation. And in New York, at the Museum of Modern Art, there is the magnificent Jackson Pollock *retrospective due here*, at the Tate in the spring. Don't wait. See it twice.

On reflection: Velazquez's 'Kitchen Scene with Christ in the House of Martha and Mary' was part of the National Gallery's 'Mirror Image', an over-literary, albeit entertaining, statement of the obvious

A surreal fairytale for the grownups

OPERA

RICHARD FAIRMAN

Hansel and Gretel
New Theatre, Cardiff

They say Christmas is only for the children these days, but the grown-ups are starting to get their own back. That delightful fairytale *Hansel and Gretel*, once the kids' preserve, is fast becoming a show for adults only.

Welsh National Opera's new production of Humperdinck's opera at the New *Theatre, Cardiff*, dabbles in a wondrously surreal world of dream and nightmare, but the result is a long way from the picturesque fantasy of Christmas tradition. The few children in the audience *came out looking* pretty glum; it was the parents who had smiles on their faces.

WNO is not the first company to have looked below *the surface of the Grimm* brothers' tale. The much-loved English National Opera production, revived earlier this year, tries its hand at Freudian analysis; and the Théâtre du Châtelet in Paris set the story *against* a Victorian industrial background. True to form, Richard Jones, WNO's producer, has come up with a very alternative scenario – a dark parable about the poor and hungry that gnaws at the stomach.

In this version, Hansel and Gretel live in a bare 1950s cottage, where the lack of food for supper is no joke. Their nightmare vision becomes a desolate hall with an empty dining-table. Then, as they dream of salvation, the 14 angels come in the form of winged chefs, who proceed to lay the table for a veritable banquet, while a large trout, the head waiter, serves the two children as *honoured guests*.

By the time they reach the Witch's gingerbread house the parable has turned Grimm indeed. All the budget has been lavished by the designer, John Macfarlane, *on a stunning, stainless-steel* kitchen, where the Witch embarks on a cooking spree of epic proportions When the tables are turned, she herself is taken out of the oven and served up for tea – a grisly *cannibalistic ending*.

Nigel Robson enjoys himself hugely playing the Witch as an nice old auntie who has a strange taste in desserts, but engaging a tenor to sing the role as a pantomime dame is never the best answer. Imelda Drumm and Linda Kitchen are well-matched vocally as Hansel and Gretel (a shame their lullaby duet was a touch too slow). Mary Lloyd-*Davies and Robert Poulton* gave vivid portrayals as their hard-pressed Mum and Dad. Mary-Louise Aitken doubled nicely as the Sandman and the Dew Fairy.

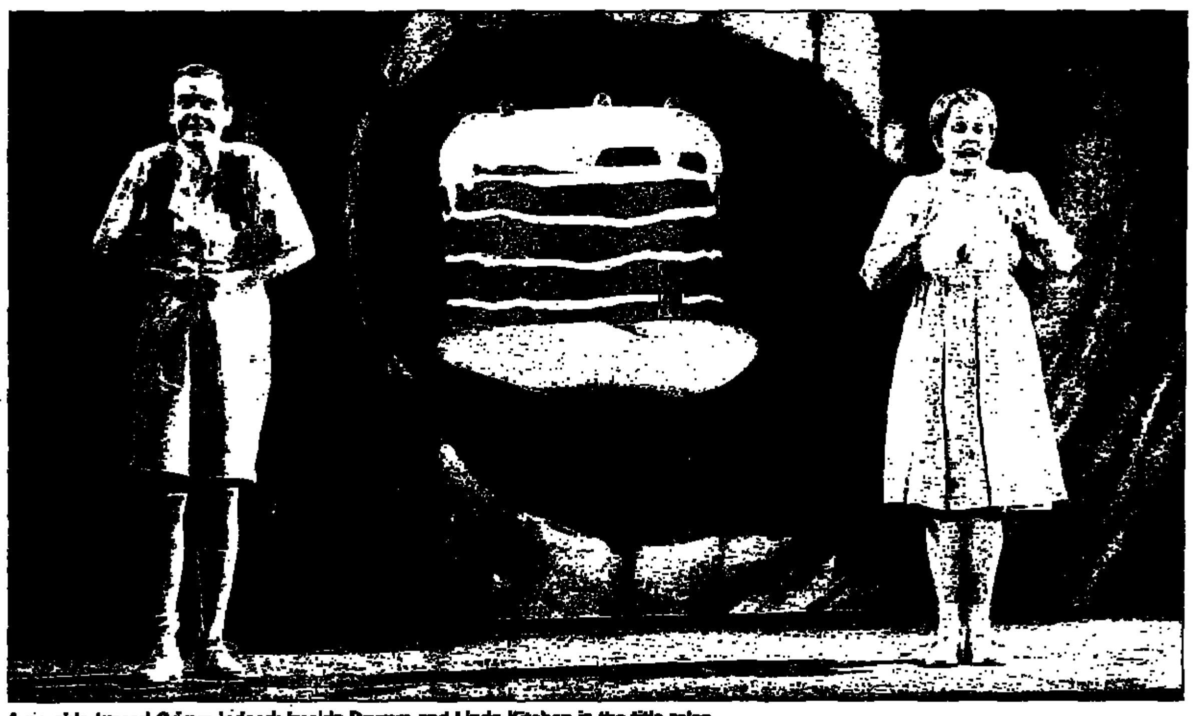
Add to this Vladimir *Jurowski's sympathetic* conducting and some excellent playing from the WNO orchestra (bravo horns, who launched the overture without a glitch), and WNO had another success on *its hands. Londoners will* be able to judge for themselves when the company brings *Hansel and Gretel* to Sadler's Wells Theatre in the spring.

★

At the moment Sadler's Wells is playing host to the truncated touring season of the Royal Opera. Last week the second cast for Smetana's *The Bartered Bride* took the stage. There are not as many star names as in the *first cast*, but they *make* a worthwhile alternative: Zvetelina Vassileva's Mařenka, sung with a cutting Slavic edge, was well paired with Christopher Ventris's sturdy Jenik. Kristinn Sigmundsson made an entertaining Kecal, more avuncular than usual. Timothy Robinson did what he could with the embarrassing characterisation forced upon poor stuttering Vašek. The double set of parents, the circus troupe, the acrobats all worked their socks off.

It was not their fault the show was so depressing. It needs faster speeds from Bernard Haitink to give it a lift, but even then Francesco Zambello's horribly insincere production, plagued by *feverishly energetic extras* with Come-Dancing smiles, would make one's stomach sink. To think what an uplifting evening brave little Opera North made of the piece in Leeds earlier in the *season*...

'Hansel and Gretel' sponsored by Amoco (UK). 'The Bartered Bride' sponsored by The Friends of Covent Garden.



A parable turned Grimm indeed: Imelda Drumm and Linda Kitchen in the title roles

INTERNATIONAL Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
The Queen of Spades: by Tchaikovsky. Conducted by Semyon Bychkov in a new *staging* by Lev Dodin; Dec 29

EDINBURGH

EXHIBITIONS
National Gallery of Scotland
Tel: 44-131-624 6200
Turner Watercolours: shown every January for 90 years, this magnificent selection of 38 watercolours was bequeathed by Victorian collection Henry Vaughan in 1900; from Jan 1 to Jan 31

FRANKFURT

EXHIBITIONS
Schirn Kunsthalle
Tel: 49-69-299 8820
Alberto Giacometti: retrospective of work by the Swiss sculptor and painter. Also featuring prints and drawings, the exhibition charts Giacometti's artistic output from his early years in 1920s Paris to his death in 1966; to Jan 3

OPERA
Oper Frankfurt
Tel: 49-69-21237 999
www.frankfurt-business.de/oper
Rigoletto: by Verdi. Conducted by Olaf Henzold and staged by Kurt Horres; Dec 30

LONDON

EXHIBITION
Royal Academy of Arts
Tel: 44-171-300 8000
Picasso: Sculptor and Painter in Clay. This first major exhibition of Picasso's ceramics will include around 100 pieces, many of which have never before been exhibited; to Jan 1

THEATRE
Albery Theatre
Tel: 44-171-876 1115
Mr Puntila and his man Matti: Kathryn Hunter's production of Brecht's satirical comedy moves to the West End. Comic duo Sean Foley and Hamish McColl play the title roles; Dec 29, 30, 31; Jan 1, 2, 4, 5, 6, 7, 8

MILAN

OPERA
La Scala
Tel: 39-02-88791
Götterdämmerung: by Wagner. New staging directed and designed by Yannis Kokkos, and conducted by Riccardo Muti. Jane Eaglen is Brünnhilde; Dec 29

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Milan Horvat in Beethoven's Symphony No. 9; Dec 30, 31

DANCE
Philharmonie Gasteig
Tel: 49-89-5481 8181
● St. Petersburg State Ballet: in Nikita A Dolguschin's staging of The Nutcracker; *Carl-Orff Saal*; Dec 29
● St. Petersburg State Ballet: in a new staging of Dornröschen by Nikita A Dolguschin; Carl-Orff-Saal; Dec 30

NEW YORK

CONCERT
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in a New Year's Eve Gala, with a programme including works by the three Strausses. With sopranos Deborah Voigt and Noemi Nadelman, and mezzo-soprano Angelika Kirchschlager; Dec 31

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● From Van Eyck to Brueghel: Early Netherlandish Paintings. Almost 100 paintings from the collection, exhibited together for the first time; to Jan 3
● *Louis Comfort Tiffany*: celebrating the 150th anniversary of the artist's birth, this exhibition, drawn from the museum's collection, includes leaded-glass windows and lamps, vases, furniture, enamels *and jewellery; to Jan 1*

Pierpont Morgan Library
Master Drawings from The State Hermitage Museum, St. Petersburg, and The Pushkin State Museum of Fine Arts, *Moscow. 120 European drawings* dating from the 15th to the 20th centuries, some of which have *never* before been exhibited outside Russia. Includes works by Rembrandt and Dürer, with particular emphasis on the *modernists Matisse and Picasso*; to Jan 8

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Die Fledermaus: by J. Strauss. Revival conducted by Patrick Summers. Cast includes Carol Vaness, Jochen Kowalski and Bo Skovhus; Dec 31; Jan 2, 6

OTTAWA

EXHIBITIONS
National Gallery of Canada
Tel: 1-613-990 1985
Songs on Stone: James McNeill Whistler and the Art of Lithography. Previously seen in Chicago, around 200 works by the American expatriate, including drawings, etchings and paintings; to Jan 3

PARIS

EXHIBITIONS
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
● *Millet/Van Gogh: display of 85* works brought together to demonstrate the influence of Millet on the work of Van Gogh. These include paintings, drawings and pastels by both artists, many of them on loan *from the Van Gogh Museum in* Amsterdam; to Jan 3
● Stéphane Mallarmé (1842-1898): retrospective exploring the work of the French Symbolist poet, and his influential relationships with his *literary and artistic* contemporaries; to Jan 3

Musée du Louvre
Tel: 33-1-4020 5151
www.louvre.fr
Portraits from Roman Egypt: *touring exhibition of mummy* portraits, originated at the British Museum. Painted on wooden panels, linen shrouds and plaster masks, they were created during the first three centuries of Roman rule in Egypt; to Jan 4

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Peter Guth in a Viennese gala concert, with soprano Izabela Labuda; Dec 30, 31

VIENNA

CONCERTS
Musikverein
Tel: 43-1-5058 6810
Vienna Philharmonic Orchestra: conducted by *Lorin Maazel* in a New Year's Day concert which marks two historic anniversaries: the 150th of the death of Johann Strauss the elder, and the 100th of the death of Johann Strauss the younger; Jan 1

OPERA
Staatsoper
Tel: 43-1-51444 2960
Ernani: by Verdi. Conducted by Seiji Ozawa in a new staging by Graham Vick; Dec 30; Jan 3

WASHINGTON

EXHIBITION
Phillips Collection
Tel: 1-202-387 2151
Impressionists in Winter: Effets *de Neige. Inspired by Sisley's* Snow at Louveciennes, this display includes 62 works from 44 collections. Artists represented include Monet and Renoir; to Jan 3

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
Die Entführung aus dem Serail: by Mozart. L.A. Opera production by Michael Hampe, conducted here by Heinz Fricke with a cast including Mary Dunleavy; Eisenhower Theater; Dec 29, 31; Jan 3, 7

ZURICH

EXHIBITION
Kunsthaus Zurich
Tel: 41-1-251 6765
Max Beckmann and Paris: more than 100 masterpieces of modern art from public and private collections around the *world. Works by Beckmann are* shown alongside paintings by Matisse, Picasso, Braque, Léger and Rouault; to Jan 3

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND *SATELLITE BUSINESS TV*

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

Not much solidarity left

Poland is in the throes of a struggle between the state, the church and the market, says **John Lloyd**

Jacek Merkel draws a triangle to represent the political forces in Poland. He was Lech Walesa's chief of staff when the latter was Polish president but he broke with him, as nearly all close to Mr Walesa have done.

At one point of the triangle are the post-Communists, in opposition in parliament but with their leader, Alexander Kwasniewski, in the presidential palace. They, says Mr Merkel, believe in the state, but not in the church or the market. At the second point is the Freedom Union – liberal conservatives who do not believe in the state, or in the church, but believe in the market. The third is occupied by the Solidarity Platform, which dominates the government in coalition with the Freedom Union. It believes in both state and church, but not in the market.

This is, of course, a highly schematised triptych. All three of the main Polish forces "believe" in the market, the state and the church. What Mr Merkel means is that their instincts draw them to, or repel them from, institutions that all exist in impressive form 10 years after Poland's liberation from Communism. Polish politics oscillates between the attraction and repulsion between and from these three centres of force. Mr Merkel believes the new Polish state can ingrain democracy and independence only by resolving the clash of these three elements over time and in peace.

His scheme of things draws the observer, inevitably, to that much more renowned triptych outside the gates of what was until the beginning of this decade the Lenin Shipyard, in the Baltic city of Gdansk. It is of three huge concrete crosses, monuments to martyrs of the workers' uprisings in 1970. On the wall behind the crosses is the most famous quotation from the address Pope John Paul II gave during his first papal visit to his native country, in 1979. He prayed: "May your spirit come down and renew the face of the earth, *this earth*."

My italics are there to emphasise what is always emphasised by Polish readers of these words – that it is *this* earth, *Polish* earth, that was to be renewed by the spirit of Solidarity, the revolt of Poland's workers and intellectuals against communist rule.

On December 16, the martyrs of 1970 are remembered. A procession, mainly of workers, winds out of the yard gates, lays wreaths and forms a group, no more than 6,000 strong, round the crosses. Henryk Jankowski, priest of St Brigitta's, which is known as the Solidarity church for its proximity to the yard and Mr Walesa's favouring of it and the priest, makes a dedication. A past chairman of the Solidarity Union in the yard speaks, followed by the present leader of the union in the Gdansk region. The procession winds back into the yard.

It is a solemn tableau; but a spoiled one, too. It is small, and there is no government presence. Father Jankowski is no longer a figure of reverence: his private life features regularly in the gossip columns. Jan Kuziatek, the former Solidarity chairman, gives a bitter speech, talking of the betrayal of Solidarity because the yard is being sold, blaming Jerzy Buzek, the prime minister, for the treachery. Janusz Sniadek, the regional leader of Solidarity union, is forced to be defensive and is bitterly so. "We should not use innocent blood to make politics ... sometimes I think we forget about our 50 years of imprisonment!"

Behind the speakers is a man in a dark coat attended by a young assistant: he listens quietly to the speeches, head down, then hurries off into the yard after they are done. This is Janusz Szlanta, who has been the object of Mr Kuziatyek's wrath. He runs the neighbouring shipyard of Gdynia. A new town built up during the interwar

10 years after

era, Gdynia has been in every sense junior to Gdansk – smaller, without a historic centre, its yard smaller, its traditions less militant. And now it has taken over. Mr Szlanta made an offer for the Gdansk yard early in December, and the receiver – Gdansk shipyard is bankrupt – accepted it.

A look around the Gdynia yard tells you why. It is working flat out, its two vast dry docks full of ships or parts of ships, two completed vessels in the harbour. In every one of the great sheds the huge metal sheets are being cut, trimmed and bent; the giant cranes rumble down their tracks, hooting warnings as they manoeuvre tonnes of steel into place. All are container ships for German clients; the yard had a $400m turnover last year and made $30m profit, up on $15m last year. Profits are rare in world shipbuilding. It gets, says Mr Szlanta, no subsidies – not from government, from the European Union, from anyone. He wants the Gdansk yard to make oil platforms; but more urgently, he wants it for its land.

"We think," he says, "that we can cover our investment [the purchase of Gdansk] with land sales – once we know what the city authorities will do. We want to build up a new centre, like London's Docklands – the value of the land is important to us."

On Solidarity, he reminisces that he was a student in 1980 when the shipyard rose in revolt, coming back from doing "black" labour abroad to earn money. "It meant a lot to me..." But he adds: "Gdansk and Gdynia coming together will be important for Poland's history, too. The Gdansk yard is very important for our culture but it cannot become a graveyard. We must remember that the Solidarity movement was to give Poland independence, to allow it to make its own decisions."

This view – that the past must have its place and its place is in the past – is quite common in Poland. It is shared by Krzystof Pusz, deputy mayor of Gdansk, another former aide to Mr Walesa and Solidarity activist. "I am conscious of what we owe to those years but I am not sentimental about it. The yard was reduced to that state by bad management and blocks to progress from the unions, and it should either have been sold or closed. Political symbols must also be living, not only dead."

The same view is shared by Bogdan Lis, among the closest of Mr Walesa's comrades in the early struggles, who has left Solidarity and is regional organiser for the Freedom Union. He says: "Solidarity should now confine itself to its trade union function, and enter politics only on issues of workers' rights. Its past will not die: but it will if it does not move on. It must rethink its position on politics, as the unions and the Labour party in Britain have done."

The view even comes from Franciszka Cegielska, who has been Solidarity mayor of Gdynia for two four-year terms, is also a national MP and is married to a trade unionist jailed for his activities in the eighties. Yet Ms Cegielska, during her rule, broke strikes, split up corporations to weaken the unions and did all she could to encourage entrepreneurialism. "The leaders of Solidarity were schizoid about their politics; they represented the workers, but became rulers of the state. That hasn't been resolved yet," she says.

It was not and will not be resolved by Mr Walesa, in some ways the defining figure of the central European liberation. After a surly spell as president, given up with enormous ill grace to Mr Kwasniewski, the former Communist minister, he has brooded in his mansion in Gdansk – now emerging to form his own political party.

"He will run again for the presidency, I know it," says Mr Pusz, "and he will lose. He was unique, did a great deal – then wasted it." "He was a great man," says Ms Cegielska. "He had courage when we needed it to carry on the struggle, and very few people have that." Says Mr Lis: "Walesa had to be president of Poland but he made many mistakes in office. People who had been with him deserted him."

The themes of desertion and betrayal mingle with those of renewal and re-invention. Ten years after, Solidarity both still rules and no longer dominates. It fulfilled its mission; to liberate church, market and democracy from the state, and now must both live and die in the endless warring between them.

This is the second in a series on the changes in former Soviet Bloc countries in the 10 years since the fall of Communism. The first article, on Hungary, appeared yesterday.

Symbols of the past: Gdansk's shipyard and Walesa — Panos

LETTERS TO THE EDITOR

Middle East policy weakens UN

From Mr Colin Rowat.

Sir, The Clinton/Blair new policy of "containment" of Iraq is a youthful 19 years old. Since the western-backed shah of Iran was ousted in a popular backlash against his rule, Washington's policy towards two of its former "three pillars" in the Middle East, Iran and Iraq, has alternated between "balance of power" and "dual containment". The former seeks to play the two off against each other to their mutual disadvantage (hence Henry Kissinger's "it's too bad they can't both lose" about the Iran-Iraq war), the latter to deal with neither, isolating both.

For at least the past two years Raymond Tanter (a member of the Council on Foreign Relations and its Economic Sanctions Task Force) has taught that the "Clinton doctrine" is one of dual containment. This he believes to be more ideologically than pragmatically grounded and less flexible: it prevents the use of Tehran to control Baghdad and gives Saudi Arabia (the only one of the original pillars to remain kneeling) two enemies. Further, isolating two neighbouring countries has brought them together.

Scott Ritter, the former chief weapons inspector of Unscom, the United Nations special commission, learned the Clinton doctrine the hard way. He sought to carry out "challenge inspections". Earlier this year Washington, preferring already to contain Iraq than to actively disarm it, prevented these. Mr Ritter resigned in the face of this American obstruction.

If a 19-year-old policy is new, may I propose an even newer one? The UN was established 53 years ago to address situations involving sovereign states which are mutually antagonistic and distrustful of each other. I do not pretend that the UN is perfect or all-wise. Indeed, it is the worst form of conflict resolution except all those other forms that have been tried. But it worsens when it is deliberately weakened by those nations which see themselves as this world's most enlightened.

Colin Rowat,
Faculty of economics and politics,
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Mandelson's high-tech finance contribution

From Mr Nicky Samengo-Turner.

Sir, I would like to think that I speak for all of us working in the UK's hothouse of high-tech venture capital financing, in congratulating Peter Mandelson, the former trade and industry secretary, on the initiative shown in his white paper.

There is an ever-increasing number of investment institutions in this country willing to commit capital to early-stage technology investments. I put this down to a generation now attaining senior positions within asset management groups who have been brought up with the computer. There is still some way to go in persuading retail investors that there are exciting opportunities and returns available in our sector, and thus there is a shortage of suitable investment vehicles.

The real issue is the lack of availability of an exit for early-stage private equity investors. We are some way from having a Nasdaq in the UK and Europe. The chances are that Easdaq will come closest but not until our larger investment institutions persuade themselves that our grandchildren will be looking for something a little more modern, exciting and technical in their Footsies, Dax, Cac and Mibtels than insurance companies, banks, food retailers and oil companies!

Nicky Samengo-Turner,
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A world of difference in crime and punishment

From Mr Edmund C. Tiryakian.

Sir, One cannot but marvel at the juxtaposition of headline stories from your December 28 edition with its subtle message on the proportionality of crime and punishment in different parts of the world.

On the one hand, we learn that the US president is likely to face a trial in the Senate to remove him from office for his adulterous dalliance as a necessary preface to a bicameral censure resolution, while on the other hand, we learn that two of the ultimate Khmer Rouge engineers of Cambodia's killing fields may completely avoid trial as part of an "amnesty deal. Perhaps the good legislators of Cambodia can follow the ingenuity of the US Congress to at least censure these two men for their bloody misdeeds!

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We are keen to encourage letters from readers worldwide. Letters may be faxed to +44 171-873 5938 (set fax to 'fine'), e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages. Fax +44 171-873 5938. Letters should be typed and not hand written.

Set to keep rollin' along

Smart moves by the Fed should allow the US economy to keep growing in 1999, but it is at some risk from a fall in share prices and consumer spending, says **Alan Blinder**

1999 NINETEEN NINETY NINE

Like ol' man river, the giant US economy just keeps rollin' along. Year-on-year growth was nearly 4 per cent in the third quarter of this year, and seems likely to top 3 per cent again in the fourth. The average growth rate over the past eight quarters is nearly 4 per cent. Net job creation has been averaging about 260,000 per month for the past two years, and the unemployment rate has remained below 5 per cent for 17 consecutive months.

Amid all this marvellous growth news, inflation stubbornly refuses to perk up. Indeed, by most measures it has been falling. Real wages, long the laggard in the US, have been rising smartly of late. There are even hints that productivity may be growing a bit faster.

Will it continue? Can the US contradict Alan Greenspan, chairman of the Federal Reserve, and remain an oasis of prosperity?

Before attempting to peer into the future, a brief look at the recent past will help us understand how America managed to grow so fast with so little inflation.

Apart from skilful monetary policy – which, until quite recently, meant doing precisely nothing – the story is mostly one of extraordinary good luck. A combination of favourable supply shocks and surprising demand shocks produced more growth and less inflation than most forecasters (including the Fed) thought likely. If you were irrationally exuberant about the US, you were right.

What were these pleasant surprises? On the supply side, energy prices fell (and are still falling), the rising dollar made imports cheaper, healthcare inflation subsided (until recently), and computer prices, which always fall, suddenly starting dropping at more than double their previous rate. In addition, the government has been fixing flaws in the Consumer Price Index and that has so far reduced measured inflation by almost one-half of a percentage point.

Adverse supply shocks, as we remember from the 1970s and early 1980s, raise inflation while retarding growth – stagflation, as it was dubbed. Beneficial supply shocks, it stands to reason, should have the opposite effect.

But there was more. Throughout this period, the unsinkable American consumer was digging ever deeper into his wallet, driving the personal saving rate down until it finally dipped into negative territory in the past two months – for the first time since the 1930s.

That certainly shocked the forecasters. The leading explanation, of course, is the soaring stock market. And if that is the reason, we have completed the circle of irrational exuberance: apparently unending growth feeds into soaring stock prices which boost consumer demand which produces the extraordinary growth.

Here is a crude measure of the size of the demand shock. If today's personal saving rate were 3 per cent (its paltry 1996 average) rather than approximately zero, consumer spending would now be about $160bn lower than it is. That is roughly the gross domestic product of Denmark. More germane, it would have trimmed more than a percentage point from the average growth rate of the past two years.

So a collection of favourable supply shocks and a large positive demand shock spurred growth while the supply shocks (plus a change in the measurement system) kept inflation at bay. Meanwhile, the Fed was sensible enough to let the party progress without withdrawing the punch bowl – a good thing too, since the punch turned out not to be spiked.

As we look forward to 1999, then, there are three questions. Will the pleasant supply shocks continue? Will consumer spending keep growing faster than income? Will the Fed continue to support or allow growth?

Mindful of the warning that one should never predict the future, here are my answers, or rather, guesses.

The supply shocks will continue, but only in part. Energy prices are still falling, as are computer prices. And measurement changes will take about another one-quarter point off inflation in 1999. But medical-cost inflation has resumed; and the dollar has stopped rising.

The main demand shock, I believe, cannot continue unabated. Over the past eight quarters, the personal saving rate has fallen from about 3 per cent to below zero. If this continues for another year, Americans will be spending nearly 102 per cent of their disposable income. While not impossible, that strikes me as highly implausible. Remember, hundreds of billions of dollars in private pensions savings are included in personal saving, which is nonetheless in negative territory.

Nor do I expect the exceptional stock market gains of 1996-1998 to be matched in 1999. (But then, I did not think 1998 would be this good either.)

That brings us to monetary policy, where I see no reason to expect a sudden change of heart. The Fed has been growth-oriented throughout Mr Greenspan's tenure and seems likely to remain so. Indeed, the world has recently witnessed a quick 75 basis point cut in the Fed's overnight interest rate at a time when the US unemployment rate was near a generational low and the dollar was falling. Can you imagine any European central bank doing that? Trust the Fed to remain smart.

Putting all this together, my best guess is therefore that real GDP growth will be about 2 per cent in 1999, with CPI inflation slightly below 3 per cent. That is not a match for 1998's splendid numbers, but it will certainly do – especially for an economy beginning the year with 4.4 per cent unemployment.

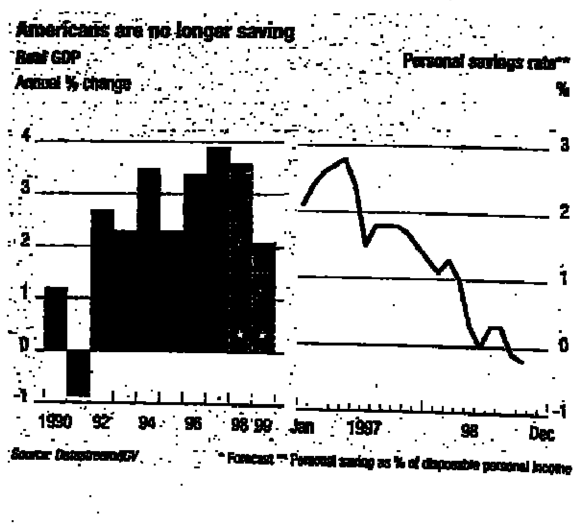
Lest this sound like yet another instalment of smug American triumphalism, I close by ticking off some downside risks. The stock market could tumble, taking some consumer spending down with it (a major worry). Americans could finally decide that zero or negative saving is a bit imprudent and become thriftier (a minor worry). Recession and slow growth in the rest of the world could damage US exports even more than the consensus forecast currently assumes (another real worry, especially if Latin America goes into deep recession).

It is harder to think of comparably important upside risks, other than the indisputable fact that domestic demand in the US has consistently outstripped expectations. But that, of course, is why ol' man river has kept rollin' along this long.

The author is a professor of economics at Princeton University and vice-chairman of the G7 Group. He was formerly vice-chairman of the board of governors of the Federal Reserve System.

This is the second in a series of forecasts on leading economies for 1999. The forecast for the UK appeared yesterday.

Americans are no longer saving



Source: Datastream/ICV * Forecast ** Personal saving as % of disposable personal income

FINANCIAL TIMES

Europe's arms industry

A time for toughness

FINANCIAL TIMES

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Tuesday December 29 1998

Europe's arms industry

Britain's General Electric Company has recently highlighted an important fact about the rationalisation of Europe's defence and aerospace industries. Whatever the outcome, it must be in the best interests of shareholders. It seems obvious, but is too easily forgotten in the debate about the political forces that overshadow the industry.

That the industry needs rationalisation is beyond dispute. There are more aircraft and tankmakers than can be justified by Europe's shrinking defence procurement budgets. Research spending is wastefully duplicated. And although European defence spending is about 60 per cent of that of the US, it packs a much smaller punch.

One way to overcome this is to create transnational companies to reduce costs and provide the focus for spending on technology. But such companies need to have strong links with the US because of the size and technological sophistication of its defence market. Equally, the current European players are too small to be global competitors and risk being picked off – or beaten in the race for orders – by US rivals.

Lumping Europe's defence companies together and hoping for the best is not the answer. Resulting groups must be financially sound, well-managed, and focused on shareholders and customers. The problem is that the customers – and in some cases, the shareholders – are governments which must satisfy domestic lobbies. For this reason companies such as British Aerospace have argued that future groups must appear British in Britain, German in Germany and French in France to ensure a continued flow of orders. But this need must not be allowed to dominate their creation.

Outright seller

This is where GEC comes in. By expanding over the past year in both the US and Europe, it has positioned itself to grow further. Its announcement before Christmas of a separation of civil and defence interests suggests that even an expanded defence arm might be spun off. Or GEC could be an outright seller, perhaps to BAe, which wants to expand its electronics interests and become a more vertically integrated defence company. GEC has to pay close attention to the wishes of its biggest customers – the UK and US governments – but its message is that, whichever path it chooses, the price has to be right.

Brink of merger

Meanwhile, BAe stands on the brink of a merger with DaimlerChrysler Aerospace of Germany, constructed with politics very much in mind. BAe and Dasa believe a merger would help to produce critical mass as well as provide substantial savings, for example in producing the Eurofighter. But negotiations are overshadowed by Bonn's insistence on DaimlerChrsyler's having a financial stake in the merged company that may appear disproportionately high. Bonn is understandably anxious that Germany's aerospace industry should not be swallowed whole by a BAe/GEC combine. But BAe needs to create a sound financial base for the future.

Deals between BAe and GEC or DaimlerChrysler can only be steps on the way. Europe will not have an integrated defence industry unless it finds a means of including France, which has gone a remarkably long way in accepting private sector ownership. The pace remains a problem but Paris has made clear it is prepared to reduce its holdings to negligible levels. Even so, mutual distrust between Washington and Paris on security issues remains a big obstacle to building European companies with strong US links.

For the companies, the sensible route is to plan a deal at a time. The first important decision seems to lie with BAe, which as a partner in the Airbus consortium is keenly aware of the prizes to be won through consolidation. On its judgment between a trans-European move and intra-UK integration, or some combination of both, rests the foundation of the European industry of the future.

A time for toughness

Li Ka-shing's announcement that he is foregoing a HK$10bn (£769m) investment in Hong Kong because of concerns about the political environment have rattled the territory. Mr Li, Hong Kong's most prominent businessman, is known locally as Superman because of his business acumen. When he worries, Hong Kong worries. The benchmark Hang Seng index fell almost 2 per cent after Mr Li's remarks and slipped again yesterday.

Although Mr Li's comments were short on specifics, his intervention highlights growing strains between business and government and concerns among the territory's business leaders about political and economic prospects. He is right to be worried, given that the territory is in deep recession. But Mr Li and other Hong Kong businessmen are wrong to hint that democratic reforms are part of the problem. Hong Kong's post colonial leaders must resist pressure from the business elite. For there is an important distinction between Hong Kong's interests and those of the businessmen.

Many of the business leaders, including Mr Li, believe Hong Kong has become too politicised, partly as a result of democratic reforms introduced by the former British administration. Strong executive-led government, they claim, has become ensnared by red tape and badgering from pro-democracy politicians.

They fear that recession, rising unemployment and steps towards democracy could prompt higher welfare spending. This would further blunt the territory's competitive edge, they warn. With a timetable for democratic reforms laid down in Hong Kong's post-colonial constitution, albeit at a conservative pace, the grumblings sound like a desire to apply the brakes on democracy.

Misguided fears

The businessmen's fears are misguided – and potentially dangerous. Business leaders are wrong to suggest they have been neglected. The post-colonial government of Tung Chee-hwa, himself a business magnate, has halted government land sales in an attempt to support the property market. It has also spent a big portion of the territory's foreign exchange reserves buying blue-chip shares in an attempt to thwart currency speculators. Mr Li personally benefited to the tune of hundred of millions of dollars of taxpayers' money.

Too much pandering

The real risks lie in pandering to the businessmen too much, not too little. As the halt in government land sales suggests, there is a danger of government bowing to special pleading from business. That is the way to cronyism, with all the resulting flaws that contributed to neighbouring Asian countries' financial and economic collapses.

Equally dangerous would be the frustration of democratic aspirations. Last May's legislative elections, in which pro-democracy parties won a majority of votes (although they still ended up with a minority of seats), was the latest evidence of Hong Kong residents' democratic demands. Backsliding on an already tepid commitment to full democracy, with 2007 the earliest date for a decision on a directly elected legislature, might provoke social tension.

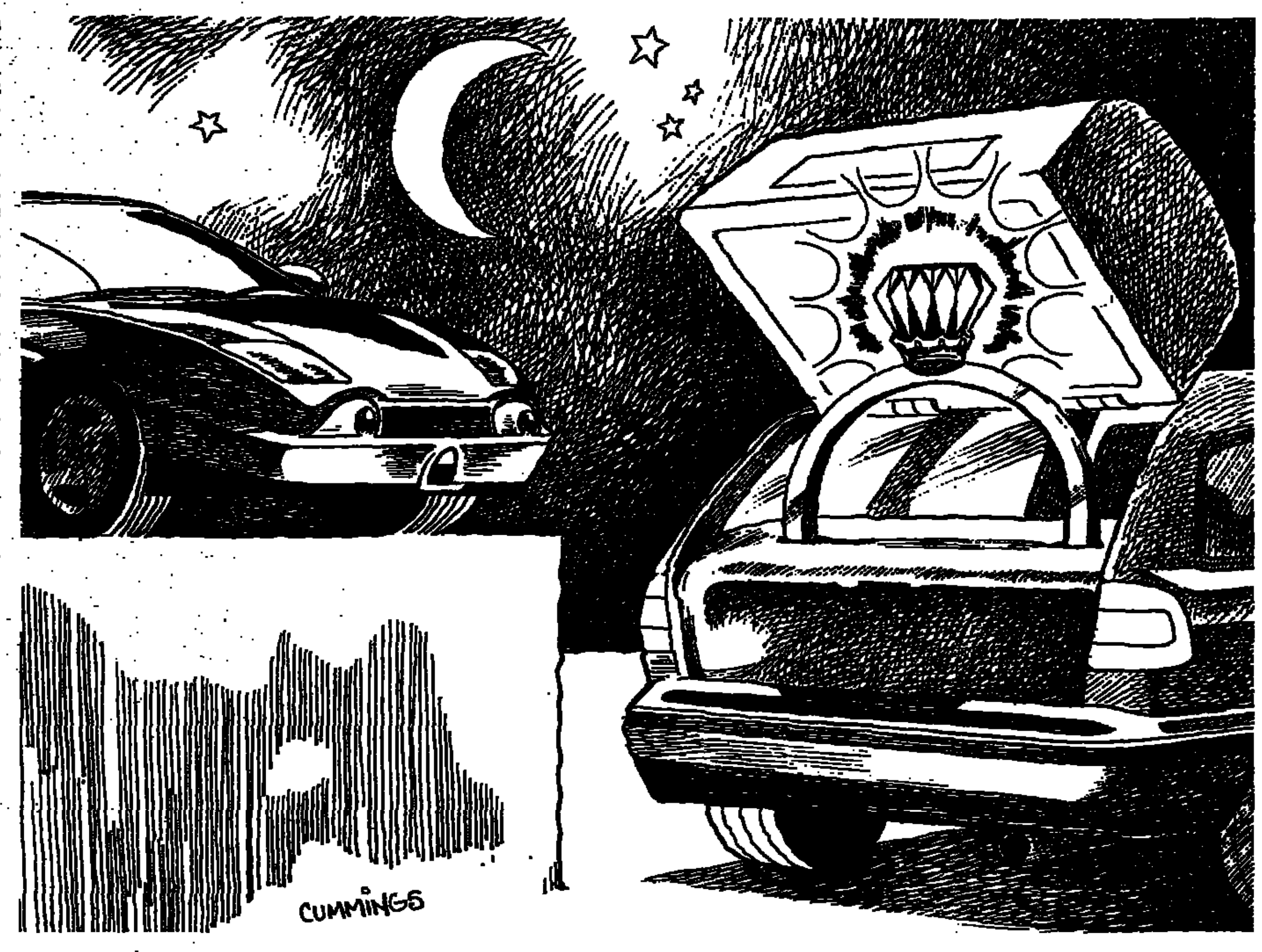
Failure to proceed with democratic reforms also threatens economic prospects. Restoring the lost competitiveness bemoaned by Mr Li and his fellow tycoons requires creativity. A condition for that is freedom of expression and an energetic entrepreneurial class. Turning the clock back is not a strategy for economic recovery or political stability.

In charting this strategy, Mr Tung must show much greater resolve and greater understanding of grassroots opinion than he has done so far. Selected by a committee dominated by big business interests, he has failed to provide a clear vision for Hong Kong and has shown little enthusiasm for democratic reforms.

Big business remains an important interest group. But if Mr Tung panders to its demands, the business environment that worries Mr Li will get worse for all. Mr Tung should stick to free market principles.

Brides shy of the altar

The motor industry is unlikely to see mega-mergers because of social and political resistance, but smaller companies such as BMW and Volvo could be for sale, says Haig Simonian



Few sectors are as blighted by overcapacity as cars. When Daimler-Benz announced its takeover of Chrysler in May, many predicted a wave of deals would follow.

For a brief moment last week, it looked as though it might all start to happen. Volvo's share price shot up as investors latched on to rumours of talks with Ford. On closer analysis, the idea seemed far-fetched, and Volvo's stock has since slipped back.

The rumours were lent substance because the motor industry needs to cut capacity and raise paper-thin margins. There have been a few limited moves in this direction. Minnows like Lamborghini and Rolls-Royce Motor Cars have been swallowed up. General Motors, the world's biggest carmaker, has forged closer ties with Isuzu and Suzuki, two long-associated Japanese manufacturers. South Korea's overblown and indebted motor industry has been rationalised in the face of collapsing sales and government pressure. But the widely forecast mega-mergers have failed to materialise.

Why have carmakers not responded like other global industries, such as oil, telecommunications pharmaceuticals and banking, to overcapacity and rising costs? And when, if at all, will volume manufacturers such as Ford, Toyota and Volkswagen feel obliged to act?

The world's car and truckmakers will build about 57m vehicles this year. That is only about two-thirds of their capacity. With many more factories coming on stream from the rush to globalise in the 1990s, the glut of unsold vehicles and underused plants will worsen unless sales rise sharply.

"The problem for most car companies is that, unlike Daimler and Chrysler, they normally have huge overlaps with potential partners, making any combination troublesome," says Keith Hayes, industry analyst at Goldman Sachs in London.

A merger of, say, Renault and Peugeot-Citroën, would eliminate capacity and cut costs. But it would also trigger massive redundancies. With unions and governments acutely aware of the car industry's role as a generator of jobs, no one has dared to moot a merger of similar, mainstream manufacturers, such as the French pair, whatever the financial benefits.

The chances of a big European merger seem even less likely given the emphasis that the left-leaning governments in the UK, France and Germany are putting on jobs. "We remain unconvinced that 1999 will be a year when the European industry bites the bullet," says Mr Hayes. "The changing political alignment has put employment generation at the top of the agenda and justifying combinations involving job losses in the name of shareholder value is probably unacceptable."

So carmakers in Europe, the US and even Japan – where overcapacity has worsened because of sliding domestic sales – have preferred piecemeal measures to structural change. Recent job cuts at Rover in the UK, Ford in Belgium and Japanese car companies such as Nissan and Mitsubishi have been based largely on natural wastage. In the US this summer's crippling strike at GM has made the industry particularly sensitive to heavy redundancies.

Such caution has been supported by governments. In many countries, state authorities continue to offer handouts for new plants. And in Europe, where overcapacity is endemic, governments regularly stump up cash to preserve jobs at old ones.

Such support has combined with the superficial health of some markets to lull many carmakers into a false sense of security. While sales in Asia and South America have slumped, the US and Europe, the world's two biggest car markets, have remained strong.

US sales of new cars and light trucks should exceed 15m units this year – the fifth year at or near record levels. New car sales in Europe rose by nearly 7 per cent in the first 11 months of this year. Most analysts expect both regions to remain buoyant.

But strong demand has not been translated into big profits. The squeeze on profits has grown acute as new brands, notably from low-cost Asian manufacturers, have entered the market. With earnings under pressure, many executives think further consolidation is inevitable. Alex Trotman, Ford's outgoing chairman, says it is "quite likely" at least one European carmaker could be forced into a merger or be taken over next year.

"The takeover candidates aren't aware of their problems yet," says Ferdinand Piëch, chairman of VW, Europe's biggest car company. He argues that the next downcycle, which he forecasts for 2001-2, will expose the weakest manufacturers, most of which are in Europe.

Until then, the social and political barriers to mergers of near equals in the industry will mean the focus is shifted to deals between mainstream and smaller brands. Such matches, somewhat like DaimlerChrysler, could bring significant economies of scale without the backlash provoked by a mega-merger.

But with Daimler-Benz already betrothed, the number of brides has dwindled. Only Germany's Bayerische Motoren Werke and Sweden's Volvo fit the bill. Both are established, but hardly high volume, brands. BMW will sell about 700,000 cars this year (excluding its UK Rover subsidiary) – less than one-seventh of VW's total. At Volvo, sales should reach almost 400,000 cars.

While both enjoy blue-chip images, neither is having an easy time. Both have been disadvantaged by the ability of volume manufacturers to wrest significant discounts from suppliers – whose components account for up to 60 per cent of the cost of a vehicle. Rising development, marketing and distribution costs have given the bigger manufacturers a further advantage – they can spread the load over higher volumes.

Volvo and BMW have used different approaches to make up for their handicaps. Volvo has shed non-core activities to release cash for cars. It has also diversified from boxy limousines to smaller and more stylish models. BMW has been more ambitious. In 1994, it spent £800m on Rover, a run-down carmaker owned by British Aerospace, to gain economies of scale.

Both strategies have, however, had mixed results. Volvo's heavy investments have not yet been reflected in profitability. Earnings have see-sawed in the past two years, leaving analysts unconvinced about the group's long-term ability to generate the cash needed for new products. And while expanding the range has boosted sales, Leif Johansson, group chairman, last month announced 5,300 jobs cuts – mainly in cars – in recognition of the Swedish group's relatively high production costs compared with bigger, more efficient rivals.

At BMW, attention has focused on Rover. The German group has commited itself to spending £500m-£600m a year to bolster inadequate former investment and introduce more desirable cars. But rather than declining, Rover's losses will soar to at least DM500m (£177.90m) this year because of the strong pound and collapsing UK market share. This makes Rover's forecast return to profitability by 2000 fanciful.

Unusual ownership structures have made Volvo's and BMW's independence look even more tenuous. Unlike most carmakers, which have a controlling shareholder or group of investors, Volvo's shares are widely held, making it vulnerable to a hostile bid. Although such deals are virtually unknown in Sweden's consensual business culture, John Lawson, motor industry analyst at Salomon Smith Barney in London, belives they cannot be ruled out. Mr Johansson admits any offer would have to be examined in the interests of shareholders.

BMW, by contrast, has an unusually concentrated capital base. Almost 46 per cent of its shares are owned by the Quandt family – heirs of the entrepreneur who revived the group after the second world war.

In recent months, speculation has risen that part of the stake may be for sale. The rumours have been stoked by Mr Piëch and other predators. Such talk has prodded BMW and the press-shy Quandts to issue denials. But the fact that BMW's fate is in so few hands has left a question about its future.

Such uncertainties have triggered speculation as to which companies would be the best grooms for the Swedish and German brides. Either would complement most mainstream manufacturers: both specialise in larger saloons and are strongest in northern Europe, the US and Asia, making them particularly appealing to the French or Italy's Fiat, weak in all three areas.

Neither Volvo nor BMW would be a clean fit. BMW is complicated by Rover. Anyone buying Volvo would want to dispose of its big commercial vehicles side, as well as smaller activities in construction equipment, marine engines and aerospace.

Precisely that spread explains why last week's reports of talks with Ford were received cautiously by analysts. Rumours of a takeover soon gave way to the possibility of more limited moves, such as a joint venture allowing Volvo to meet its ambitions of building cars in the US via a Ford plant.

But Volvo's breadth could appeal to one group. The company is talking to Fiat about unspecified co-operation, which could end in a merger.

Volvo's cars would complement Fiat's utilitarian small ones and its sporty Alfa Romeo brand. Iveco, Fiat's commercial vehicles side, and Volvo's trucks business would also fit well.

Even the geography works. Fiat's small cars are most popular in Italy and southern Europe, and inroads have also been made in eastern Europe and developing markets. Volvo's cars, by contrast, do best in northern Europe and the US – a market all but abandoned by the Italians.

BMW would be a more complex partner. It is significantly bigger than Volvo in cars, complicating integration. It is also compromised by Rover, which is still in an unresolved transition from a failing volume manufacturer to an aspiring premium brand.

That has not, however, hindered speculation about BMW's fate.

While Volvo has made no attempt to disguise its readiness to talk, BMW's protestations of independence will start to look thin without a fast recovery in the UK. So the industry could yet see a marriage in the new year.

Falling on to the dark side of life

Thailand's redundant car parts workers have had to rely on their wits in order to make ends meet, says Ted Bardacke

There are few sights more depressing than a shuttered factory, where the wind whistles around idle machinery and the only worker with job security is the driver of the boss's limousine.

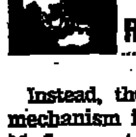
But Surang Patiyanon and Kalaya Suwanmalee, two Thai vehicle components workers who lost their jobs in June, saw something worse the day they went to pick up their severance cheques. The neighbourhood loan shark, worried, too, about the loss of a steady income, followed the 274 sacked workers to the bank and demanded that those indebted pay up on the spot.

Six months' compensation for 24 and 15 years respectively making oil pans, fuel tanks, silencers and seats for Nissan cars and Yamaha motorcycles at the Siam Parts and Engineering factory never looked so small.

"I feel like I've fallen on to the dark side of life. I have no land in the countryside to save me. No cousins to help either," says Ms Kalaya, dismissing with a shake of her head the two most convenient options available to unemployed Thai workers: turning to a native village or extended family for support.

Officially, more than 1m Thais have been sacked since the country's economic crisis struck with a vengeance in July 1997. Among the worst-hit have been autoparts workers: vehicle sales in the first 11 months of 1998 were down 64 per cent on the same period last year.

What little official social security safety net exists for the unemployed has proved so ineffective that the government even had to promise the International Monetary Fund that it would enact new measures to help the poor. Unions have little muscle: only 2.5 per cent of the country's 10m industrial workers are members.



Riches to rags

Instead, the main self-defence mechanism is self-employment. Ms Surang started selling noodles on the street while Ms Kalaya stands watch in her sister's secondhand clothes shop, making at best Bt50 (83p) a day. During a get-together of former Siam Parts workers, one worker arrives selling grapefruits, another with pirated compact discs, and still another with lottery tickets. An ex-foreman brings fresh doughnuts from his new stall next to a motorway entrance.

At least there is no stigma attached to being unemployed. At the weekends, for example, there are sales of secondhand luxuries at an open-air "market of the formerly rich".

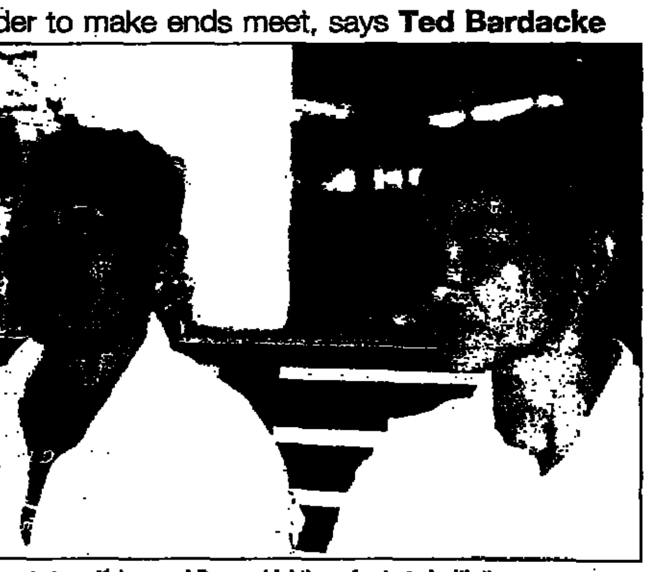
"I don't feel ashamed. I don't know what other people think about me but I don't think they care too much – it's so normal to be unemployed these days," says 42-year old Ms Surang, who was 18 when she began working at Siam Parts.

There is a feeling of injustice and for the two women frustration is directed at the government.

"The government offers loans to unemployed people to start a small business but it requires a guarantor. That's impossible for me to find," complains Ms Kalaya, a single mother who once earned Bt10,500 a month, plus overtime. "The government should spend that money on preventing the factory from closing."

Jaroon Gatemuangurong, the doughnut-selling ex-foreman, listening to the conversation, chimes in. He blames the management for not keeping the factory competitive.

"It was my duty to increase productivity and reduce costs and I did it very well," says Mr Jaroon. "But even this couldn't stop the company from shutting down."



Poverty trap: Kalaya and Surang (right) are frustrated with the government

Yet even the perceived unfairness of the situation – that there is nothing the workers feel they could have done to keep their jobs – is overshadowed by worry. Not so much about where the next meal will come from but how to keep financing the children's education so that they do not fall into the same trap as their mothers in the next boom and bust cycle.

"I will have so much regret if I can't keep that promise that my two girls will go to university. They are such good students," says Ms Surang, who says that even the minimum costs of Bt1,000 per term plus Bt60 a day in expense money for each girl are tough to cover these days.

Ms Kalaya, her eyes beginning to fill with tears, adds: "My son is preparing to be a doctor. We will find a way to eat but if he can't finish his studies, I'm afraid he is going to commit suicide.

"I want things to be different for him. After I lost my job I looked around a lot for a new one. But I'm 40 years old and I finished only four years of primary school. I applied to be a maid but even they said 'no one older than 35.' "

"Thais want to work," Ms Kalaya says, explaining that a few years back Siam Parts offered a generous early retirement plan. "No one wanted it. I don't want it. I want to work."

This is the second in a series on victims of the Asian economic crisis

FINANCIAL TIMES

TUESDAY DECEMBER 29 1998

THE LEX COLUMN

Merrily we merge along

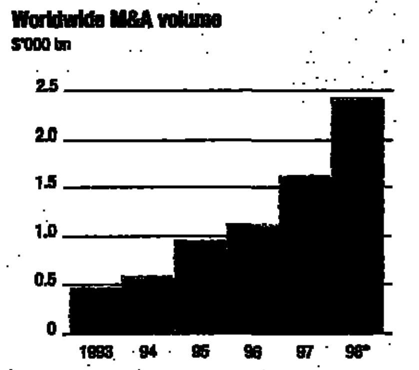
Roll on the $100bn deal. We almost got there in 1998, with the $86bn merger between Exxon and Mobil, and three other combinations – Travelers/Citicorp, SBC Communications/Ameritech and Bell Atlantic/GTE – all valued at more than $70bn. These gigantic transactions helped boost worldwide merger and acquisition volumes to more than $2,400bn, a whopping 50 per cent increase on 1997's record total.

But if 1998 is remembered as the year of the big deal, this hides how much M&A activity has broadened since the current cycle began with financials, defence and pharmaceuticals in the early 1990s. Few industries remain immune from the trends of consolidation, globalisation and *shareholder value creation. Companies* are increasingly turning to acquisitions as the easiest, sometimes the only, way to generate top-line growth at a time of static volumes and falling prices.

By that reasoning, oil, automotive, and capital goods are likely to join telecommunications, banking and chemicals as hot sectors for 1999. In oil, mining, paper and steel, the damage being wreaked by falling commodity prices is painfully obvious. For chemicals and cars, the difficulty of raising selling prices is almost as severe, at a time when many of the *easy, internal cost savings* have already been made.

Often, it takes just one audacious deal to lead to the sort of industrial endgame that has taken place in US defence and is occurring in telecoms. The $55bn British Petroleum/Amoco merger was the trigger for the oil sector, and the $40bn creation of DaimlerChrysler may well set off a stampede for partners in the car industry. Jürgen Schrempp, Daimler chairman, forecasts that there will be just 10 carmakers left within 10 years. Alex Trotman of Ford puts the figure at five.

The growth in cross-border deals is no accident. Managers in industries that have consolidated nationally are being forced to look further afield, even though the scope for savings is usually less. Cross-border deals already account for around a quarter of total M&A volumes and this share looks set to increase in 1999. Interestingly, none of these international deals has sparked the kind of patriotic opposition that Japanese purchases of American assets provoked in the 1980s. Such deals have also been made easier by the increasing willingness of investors to accept foreign stock, coupled with companies' ability to tailor their paper to different constituencies – witness DaimlerChrysler's global shares, which pay dividends in a choice of currencies.



Source: Securities Data   * Estimate

Even more significant has been the growing popularity of the mergers of equal concept. Given the favourable tax and accounting treatment accorded to such mergers under pooling of interest *rules in the US, this structure has* undoubtedly fuelled M&A volumes. But investors have made it clear they do not like fudges in the management structure, and companies are already adjusting to the discrediting of the joint chairmen/joint chief executive arrangement.

Geographically, 1999 is likely to be Europe's year. In the past 12 months, the US share of M&A deals rose from 55 to 65 per cent, because it was home to most mega-mergers. But the European Union's com*mon currency and lower returns on capi*tal suggest there is still a need for wholesale restructuring. There may also be a pick-up of M&A volumes in Asia and Latin America; as economies there stabilise, managers should find bottom-fishing more comfortable. General Electric of the US announced recently that it would divert cashflow from share buy-backs to make Asian acquisitions.

The coming year may also see the return of financial buyers, who have raised plenty of cash (particularly for European transactions), but have recently tended to lose out to industrial rivals able to create synergies – as KKR did in the case of Hoechst's *paints division*.

Of course, there are risks in this optimistic scenario. The most obvious is a stock market crash, although the quick recovery in activity following this autumn's setback suggests most deals these days are more strategic than financially driven. Ironically, this fact may cause problems in another quarter; in sectors such as defence and telecoms the extent of consolidation has clearly started to worry antitrust regulators.

But the biggest danger to the M&A boom is that investors are becoming *increasingly discerning. Many recent* deals have been greeted more with a yawn than a shout and share prices have hardly reacted, even where a juicy premium was on offer. Some of this probably reflects regulatory uncertainty or long-drawn out timetables. But it also demonstrates a harder-headed assessment of promised synergies. Often, a high proportion of those synergies could be delivered by companies independently.

These days, the market also takes competitive response, revenue attrition and *advance costs into account*. Investors are more alert to the fact that the strategic advantages of M&A accrue disproportionately to first movers in an industry who are able to pick off partners with the best synergies. This has not been lost on Britain's General Electric Company and British Aerospace as they contemplate their own merger options, with neither wishing to be forced on to the back foot by the other.

Investors are also distinguishing between those synergies based on hard cost-cutting and those based on hoped-for *revenue benefits. The latter may prove* elusive if rivals engage in copycat mergers. And the market is becoming quick to doubt the wisdom of overly defensive alliances, such as that between UK engineering firms BTR and Siebe, which seem to be propping up weaker companies rather than fundamentally improving their competitive position.

But if all this shareholder watchfulness increases the pressure to do fewer but better deals, that will be no bad thing.


Getting a frosty reception: Moscow mayor Yuri Luzhkov welcomes Ded Moroz – the Russian version of Santa Claus   AP

Grandfather Frost is coming in from the cold

Moscow's mayor enlists the support of Russian Santa Claus

By John Thornhill in Moscow

Yuri Luzhkov, Moscow's rumbustious mayor and presidential contender, has enlisted Ded Moroz, Russia's version of Santa Claus, to boost his popularity. In the process, he has decreed that "Grandfather Frost's" origins are purely Russian.

Mr Luzhkov invited the red-robed, white-bearded Ded Moroz to ride *through the city streets in a three*-horse "troika" sled on Sunday and to light up a giant fir tree on Manezh Square beneath the Kremlin walls. Mr Luzhkov said he wanted this to become an annual event.

With typical swagger, he also resolved the contentious debate about where Ded Moroz lives for most of the year.

Rejecting suggestions that the winter merrymaker came from Lapland, Mr Luzhkov asserted Ded Moroz was a "real Russian" who hailed from Veliky Ustyug, in the Vologodskaya region of northern Russia.

"He lives among absolutely enormous fir and pine trees in the land of Vologoda," Mr Luzhkov said.

The reassertion of Russian holiday traditions chimes well with Mr Luzhkov's claim to be the champion of national values. On previous occasions, Moscow's mayor has banned foreign words from local advertising, created a local challenger (Ruskoye Bistro) to the mighty McDonald's fast food chain, and asserted Russia's territorial claims over the Crimea region of Ukraine.

Mr Luzhkov has also been trying to extend his political reach beyond Moscow to win new friends in the *regions*.

To this end, Moscow has provided funds to help Ded Moroz's home town cope with the aftermath of a summer flood and is building a local school.

Ded Moroz has suffered something of an identity crisis this century and is now much confused by many Russians with Santa Claus, a western interloper heavily promoted by foreign advertisers.

In Tsarist times, Ded Moroz's predecessors used to pop up at Christmas time, which, according to the old calendar still employed by the Orthodox church, is celebrated on January 7.

But following the Bolshevik revolution of 1917, the Communist Party banned the celebrations marking Christmas and New Year, consigning Ded Moroz to a cheerless exile. It was Stalin, the "best friend of all the children", who restored New Year as a national holiday in 1948.

Ded Moroz was then reinvented as an ideologically correct do-gooder, who could be conveniently contacted through Zarya, the state monopoly for domestic services, which also controlled odd-job men and baby-sitters.

Accompanied by Snegurochka, his *Snow Maiden assistant, Ded Moroz* now appears at children's parties throughout the holiday season distributing gifts and fighting off Baba Yaga, the evil witch and habitual present snatcher.

The Moscow administration has devoted a lot of resources to entertaining the city's 1.5m children and hosted the youth Olympics this summer. Mr Luzhkov's face even adorns some school text books, replacing the once-ubiquitous features of Vladimir Lenin, the founder of the Soviet state.

But Mr Luzhkov yesterday broke off from his attempts to win the hearts of Moscow's children to try to attract the votes of their parents by promoting the newly-created Otechestvo (Fatherland) movement, labelled the new "party of power".

CONTENTS


Benazir Bhutto, Pakistan's opposition leader, leaving Karachi airport after being refused permission to leave the country. Page 3   Picture: AP

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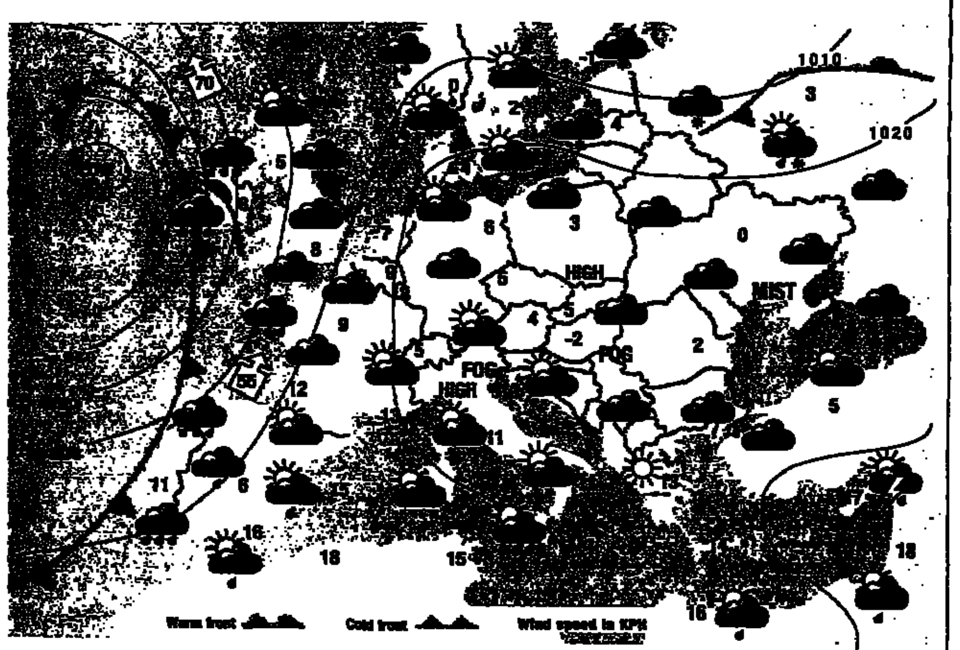
FT WEATHER GUIDE

Europe today

The central and eastern Mediterranean will be dry with some sun. Western Spain and Portugal will have heavy rain but eastern Spain will be drier. Wet, windy weather will approach western France but eastern France and the Low Countries will be dry and mild. Central and eastern Europe, including Denmark and northern Italy, will be fine and settled but overnight fog and frost will linger in some places. Norway and Sweden will have scattered wintry showers but north-east Europe will be windy with widespread snow.

Five-day forecast

East and north-east Europe will be dry but very frosty with patchy freezing fog. Central Europe will be dry but daytime temperatures will be mostly above freezing. Rain will reach Italy on Friday. Western Europe will stay changeable and relatively mild.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	27
Accra	Fair	32
Algiers	Fair	16
Amsterdam	Cloudy	7
Athens	Fair	13
Atlanta	Cloudy	14
B. Aires	Shower	29
B.ham	Drzzl	7
Bangkok	Fair	34
Barcelona	Fair	14
Beijing	Fair	2
Belfast	Rain	7
Belgrade	Fair	1
Berlin	Cloudy	5
Bermuda	Shower	22
Bogota	Shower	19
Bombay	Sun	32
Brussels	Cloudy	9
Budapest	Cloudy	-2
C.hagen	Fair	4
Cairo	Fair	19
Caracas	Sun	32
Cardiff	Shower	8
Casablanca	Shower	18
Chicago	Cloudy	0
Cologne	Shower	9
Dakar	Cloudy	26
Dallas	Sun	22
Delhi	Sun	21
Dubai	Sun	29
Dublin	Rain	9
Dubrovnik	Sun	10
Edinburgh	Cloudy	5
Faro	Shower	14
Frankfurt	Fair	9
Geneva	Fair	5
Gibraltar	Shower	16
Glasgow	Rain	5
Hamburg	Cloudy	6
Helsinki	Cloudy	-1
Hong Kong	Fair	21
Honolulu	Sun	27
Istanbul	Fair	9
Jakarta	Cloudy	31
Jersey	Rain	9
Johannesburg	Fair	23
Karachi	Sun	28
Kuwait	Fair	25
L. Angeles	Sun	21
Las Palmas	Fair	22
Lima	Fair	24
Lisbon	Rain	11
London	Cloudy	8
Lux.bourg	Cloudy	8
Lyon	Fair	11
Madeira	Shower	19
Madrid	Rain	6
Majorca	Fair	15
Malta	Thunder	14
Manchester	Shower	6
Manila	Shower	29
Melbourne	Fair	22
Mexico City	Sun	23
Miami	Fair	26
Milan	Cloudy	6
Montreal	Cloudy	1
Moscow	Sleet	3
Munich	Fair	8
Nairobi	Cloudy	27
Naples	Fair	13
Nassau	Fair	28
New York	Rain	6
Nice	Fair	13
Nicosia	Shower	17
Oslo	Fair	0
Paris	Cloudy	9
Perth	Sun	30
Prague	Fair	5
Rangoon	Sun	34
Reykjavik	Fair	0
Rio	Fair	31
Rome	Fair	11
S. Frsco	Fair	12
Seoul	Fair	2
Singapore	Shower	29
Stockholm	Fair	2
Strasbourg	Fair	9
Sydney	Fair	27
Tangier	Shower	16
Tel Aviv	Shower	18
Tokyo	Cloudy	9
Toronto	Sleet	4
Vancouver	Rain	9
Venice	fog	5
Vienna	Cloudy	4
Warsaw	Cloudy	3
Washington	Cloudy	8
Wellington	Fair	20
Winnipeg	Sun	-20
Zurich	Cloudy	6

FINANCIAL TIMES
COMPANIES & MARKETS
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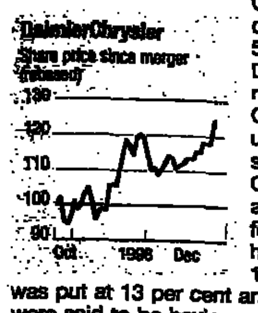
INSIDE

DaimlerChrysler lifts Dax



German equities clawed back above the 5,000 level on the Xetra Dax index as investors returned from the Christmas break in upbeat mood. Buyers stepped on DaimlerChrysler's accelerator after the motor giant forecast significantly higher earnings for 1999. Sales growth was put at 13 per cent and merger synergies were said to be having an increasingly important impact on trading. **Page 28**

More internet mania in US

The stock market value of Charles Schwab, the private-client broker that was a pioneer of online trading and investing, has risen by 70 per cent in the space of only eight trading sessions. The company is benefiting from the internet mania gripping the US stock market, which is affecting companies whose fortunes appear most closely linked to the online world. **Page 14**

Corporate funds flow into Lloyd's

A spate of deals at Lloyd's, the London insurance market, has underlined the increasing dominance of corporate capital and the growing presence of overseas groups in the market. Corporate investors started to replace the dwindling band of Names, whose wealth traditionally supported Lloyd's, after the financial crisis that hit it in the early 1990s. **Page 16**

Israeli food retailers focus on home

After venturing abroad, Israel's two largest food retailers are returning home and concentrating on what they do best: selling food to Israelis. For Blue Square and Supersol, a duopoly which has dominated the food retailing sector for decades, the decision coincides with disappointing third quarter results. **Page 14**

Iron ore prices set to be cut

Australian iron ore producers are braced for a sharp price cut in forthcoming negotiations with Japanese steel producers. Japanese steel production is set to reach its lowest in nearly three decades in the year to March, while world steel production in November fell an annual 9.3 per cent, the largest drop since 1983. **Page 15**

Dollar slips ahead of euro launch

The US dollar dropped back from the overnight highs it reached in Tokyo. However, trading was lacklustre, with dealers reluctant to take significant positions ahead of the impending launch of Europe's single currency. **Page 19**

Deflation fears trigger Tokyo falls

Shares traded lightly in Tokyo in spite of Sunday's confirmation by the Economic Planning Agency that Japan's economy had entered a deflationary spiral. The benchmark Nikkei 225 Average fell 0.6 per cent. **Page 28**

COMPANIES IN THIS ISSUE

CROSSWORD, Page 15

MARKET STATISTICS

INVESTMENT BANKS END 1998 AHEAD ON EARNINGS DESPITE DISRUPTION TRIGGERED BY RUSSIA'S DEBT DEFAULT

Wall Street survives the turmoil of a tough year

By Tracy Corrigan in New York

Wall Street firms are still paying the price for the worst financial market disruption in 50 years, despite a market rebound in November.

The fourth quarter has been better than the third, but is still expected to be only marginally profitable for many and well below last year's levels, according to analysts.

Merrill Lynch and Donaldson, Lufkin & Jenrette shares are ending the year more or less where they started, despite a 26 per cent rise in the Standard & Poor's 500 index, and thousand of jobs have been cut on Wall Street.

As well as suffering trading losses, firms were hit by a fall-off in underwriting and mergers and acquisitions activity due to the market turmoil triggered by Russia's default on its domestic debt in August.

"October was bad," said Raphael Soifer, securities industry analyst at Brown Brothers Harriman, "and December has two light weeks" for underwriting and mergers and acquisitions because of the holidays.

Nevertheless, the picture for the year as a whole looks better than might be expected. The value of global mergers and acquisitions totals \$2,432bn for the year to date compared with \$1,618bn last year, according to Securities Data.

Debt and equity issuance in the US domestic market has reached \$1,796bn, up from \$1,313bn a year ago, although new issue volume in higher margin businesses such as IPOs is down for the quarter and for the year.

Despite poor third and/or fourth quarters, many firms are likely to set record or near record earnings for the year when they report in January and February.

Goldman Sachs, which had two nasty months – September and October – in its fourth quarter because of its November fiscal year end, has already reported record revenues this year and near-record earnings.

Lehman Brothers, a firm which only months ago was rumoured to be on the brink of disaster, is expected to show a record year when it reports next week.

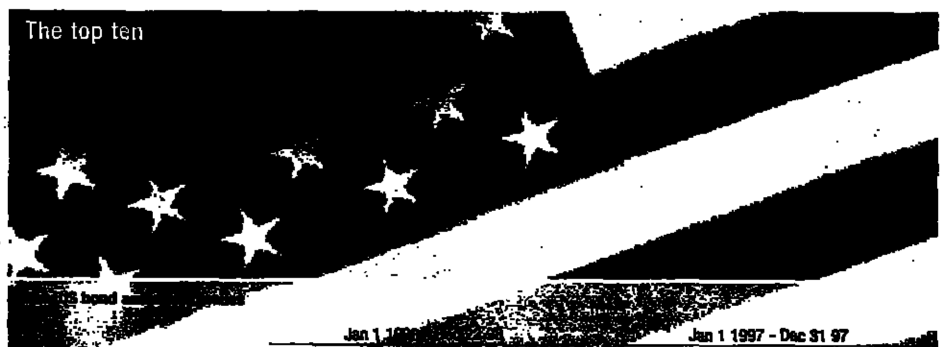
Morgan Stanley, which also reports next week, has benefitted not only from its broad spread of businesses but also from superior risk management systems. "They managed to dodge most of the bullets," said Mr Soifer. For those who took some big hits, a broad spread of businesses is still a help. Merrill Lynch performed badly in fixed income, prompting a management shake-up in that business and in risk management. Merrill still managed to top the US underwriting league tables again this year, however, and ranked second in global M&A.

In fact, the bulge bracket which dominates the US securities industry appears better ensconced than ever. There are also reasons for big US investment banks to be cheerful about 1999. Trading volume looks likely to remain high, and underwriting and M&A pipelines have refilled.

Some analysts, however, warn that concerns about the Millennium computer bug will severely dampen activity in the second half of the year.

The bouyant first half of 1998, which will help firms produce impressive 1998 earnings despite months of market turmoil, will set tough comparisons for next year. The fortunes of Wall Street remain, as one analyst said, "a bet on the market" – and as this year has shown, that is a tricky call.

The top ten



US bond and [illegible]

	Jan 1 1998 – Dec [illegible]			Jan 1 1997 – Dec 31 97		
	Value ($bn)	Rank	Market share (%)	Value ($bn)	Rank	Market share (%)
Merrill Lynch	[illegible]	[illegible]	15.7	211.24	1	[illegible]
Salomon Smith Barney	[illegible]	[illegible]	12.4	172.89	[illegible]	[illegible]
Morgan Stanley Dean Witter	[illegible]	3	11.3	[illegible]	[illegible]	[illegible]
Goldman Sachs	191.30	4	10.7	[illegible]	[illegible]	10.6
[illegible] Brothers	149.10	5	[illegible]	[illegible]	5	9.3
[illegible] First Boston	126.86	[illegible]	[illegible]	[illegible]	7	5.2
[illegible]organ	87.92	[illegible]	[illegible]	103.91	6	[illegible]
Bear Stearns	[illegible]	[illegible]	4.6	59.40	[illegible]	[illegible]
Chase Manhattan Corporation	[illegible]	9	3.9	33.35	[illegible]	[illegible]
Donaldson, Lufkin & Jenrette	[illegible]	10	3.4	45.94	[illegible]	[illegible]

UK energy producer's Polish venture falters

By Christopher Bobinski in Warsaw

Talks between National Power, the UK energy producer, and Poland's state treasury on the purchase of a strategic stake in the Patnow-Adamow-Konin (PAK) complex, one of the country's largest power generators, have foundered amidst a fall in Poland's wholesale power prices.

The privatisation of the plant, which supplies about 11 per cent of Poland's power needs, is the first significant sale in the sector, which has recently embarked on a partial liberalisation of the wholesale power market covering about 30 per cent of energy output.

The talks, which resulted in National Power offering \$125m for a 20 per cent stake in PAK, were due to have been completed just before Christmas.

But they halted when Emil Wasacz, the treasury minister, refused the UK company more time to negotiate long term agreements with Poland's National Grid (PSE) and regional distributors on the prices PAK would receive for its energy, according to people close to the talks.

National Power offered a further \$125m for another 17 per cent stake in PAK to help finance the lignite-powered generator's estimated \$1bn modernisation costs.

The British company, which is understood to be interested in resuming negotiations, had been in talks on the purchase since the beginning of October.

The Polish treasury had granted the UK company exclusive negotiating rights against a bid from Elektrim, a listed Polish industrial conglomerate backed by the California Energy Company plus local banks and energy plant construction and supply companies.

A partial liberalisation of Poland's wholesale power market has seen hard coal-powered generators lowering prices for next year by about 10 per cent in real terms in an effort to retain market share.

The liberalisation has, for the first time, allowed regional distribution companies to negotiate directly with the generators and to shun PSE, which previously administered supply and demand.

Cephalon shares up after new drug is approved

By Victoria Griffith in Boston

Shares in the US biotechnology company Cephalon rose sharply in morning trading yesterday after the US Food & Drug Administration (FDA) approved its treatment for narcolepsy, the first non-amphetamine drug to be approved for the disease in 40 years.

The share price – which closed at \$8.19 on Christmas Eve – peaked at \$10.71, before falling back to \$9.19 in afternoon trading.

The approval of Provigil, as the product will be called, marks a turn in fortune for Cephalon. "Sales of Provigil alone should move the company into profits by the year 2001," said David Stone, a biotechnology analyst with the research group SG Cowen Securities.

Like most biotechnology companies, Cephalon is losing money.

It had traded as high as \$40 a share three years ago, but lost favour with investors after the FDA failed to clear Myotrophin, the company's treatment for Lou Gehrig's disease, a condition that attacks the nervous system.

Narcolepsy, a chronic disorder that can cause patients to fall asleep against their will at any time of the day, afflicts about 250,000 people in the industrial world. The treatment will be Cephalon's first product in the US. Provigil has already been approved in several markets in Europe.

Cephalon's strategy is to gain approval to use Provigil to treat other diseases.

"There are a lot of other conditions that cause excessive drowsiness during the day, and we're concentrating on getting clearance for those," said Frank Baldino, Cephalon chief executive.

Provigil could also be used to treat patients with obstructive sleep apnea, a breathing disorder that prevents sufferers from getting a good night's sleep.

Although many patients with the condition now use a device to keep their airways open, daytime drowsiness can still be a problem.

Provigil has a number of advantages over current treatments for narcolepsy.

Patients need to take the medicine once a day – not several times a day like most amphetamines – and Provigil is not habit-forming.

Cephalon's treatment, however, did show mild to moderate side effects in clinical trials such as headaches, nausea, anxiety and night-time insomnia.

MOVE IS PART OF STRATEGY TO REBUILD FINANCES FOLLOWING SECTOR'S BAD LOAN PROBLEMS

Fuji Bank is preparing to raise \$1.8bn in New Year share issue

By Naoko Nakamae in Tokyo

Fuji Bank, one of Japan's largest commercial banks, is to raise Y217bn (\$1.87bn) by issuing new shares in January. Its business partners in the Fuyo *keiretsu*, or corporate family, will provide 60 per cent of the fresh capital.

The bank has been implementing an aggressive strategy to rebuild its finances after running into the loan problems that have hit the Japanese banking sector, though it denied it would be using the proceeds from the share issue to write off its bad loans.

Instead, it confirmed that it planned to apply for between Y500bn and Y700bn of public money to strengthen its financial base. Its strategy differs from that of Bank of Tokyo-Mitsubishi, Japan's biggest, which has decided not to apply for public funds.

Fuji Bank will issue more than 503m shares by third-party allocation to 60 companies. From the Fuyo *keiretsu*, Yasuda Mutual Life will be buying over 18 per cent, or Y40bn, of the shares, while Yasuda Fire and Marine will account for Y20bn. Nissan Motor and Marubeni Corporation are each set to acquire Y10bn. Hitachi, a Fuyo group affiliate, will be buying a modest Y1bn.

Japan's two largest life assurers, Nippon Life and Daiichi Mutual Life, will be acquiring Y10bn of shares each. Both are big shareholders in Fuji Bank.

Sakura Bank and Bank of Tokyo-Mitsubishi also declared recently that they planned to raise capital privately. But Sakura Bank hit a snag when Toyota Motor, a fellow member of the Mitsui *keiretsu*, refused to participate in a planned Y350bn capital injection for the bank.

Fuji said it would use Y70bn of the share issue to fund the creation of a new trust bank with Dai-Ichi Kangyo Bank. The remainder would largely be used to strengthen its domestic and overseas systems infrastructure. "We are preparing our survival strategy for an increasingly competitive business environment in the wake of Big Bang reforms," said a Fuji Bank official.

It is in the process of increasing its reserves for problem loans by Y450bn this fiscal year, of which Y200bn will be used to boost problem loan reserves. The bank is also reducing unrealised losses on securities by roughly Y350bn through stock devaluation and outright market sales. It plans to offset these expenses with tax credits totalling Y600bn, which it expects to receive at the end of March.

Fuji Bank shares ended the day unchanged at Y431. Bank of Tokyo-Mitsubishi also remained unchanged at Y1,202, but Sakura Bank, yesterday's most heavily traded stock, fell 3.3 per cent, or Y9, to Y261.

MARKET WILL GROW TO \$36BN NEXT YEAR

China relying on bonds to boost economic growth

By James Harding in Shanghai

China is set to rely more on its emerging domestic bond markets as well as international capital markets next year, as the government continues its fast-growing debt issuance programme to finance infrastructure spending and boost economic growth.

Beijing is expected to increase the issuance of state, or central government, bonds to more than RMB300bn (\$36.5bn) next year and is also considering applications for overseas issues, following the successful recent offering of a sovereign \$1bn 10-year bond.

The plans to call on domestic and global bond markets underline the pressures on Beijing to find funds to pay off debts in the state sector, finance construction projects and ease the strain on an overstretched national budget.

According to officials, China's budget deficit is likely to reach around RMB96bn this year and analysts expect the government will have to continue deficit spending next year if China's slowing economy is going to meet what officials are forecasting will be 7-8 per cent growth for 1999.

Debt issuance this year has leapt to a total of about RMB590bn in different kinds of public sector bonds, including RMB280bn of state bonds. State bond issues alone are expected to rise next year to RMB300bn, according to China Securities, the official newspaper. Beijing has just set the middle of next month as the date for the issue of a domestic RMB2bn bond to finance construction of the Three Gorges dam, the world's largest civil engineering project.

The government is also expected to turn to overseas investors, after the issue this month of its first sovereign bond since the start of the Asian financial crisis was oversubscribed.

The debt was priced 280 basis points over the benchmark 10-year US Treasuries and about 50 basis points over the last China bond issues. Credit Suisse First Boston and Goldman Sachs jointly led the deal.

The pricing of the bonds attracted investors, but some people have been concerned about the use of funds raised. Campaigners at the International Rivers Network have pointed out that the prospectus allows that some of the money may assist the Three Gorges project, which they say threatens to damage the environment permanently, exact a heavy social cost and prove an inefficient way to generate electricity.

Institutions looking to raise funds outside China include the State Development Bank – China's main policy bank and lender for domestic infrastructure – which is expected to tap foreign investors early in 1999. Chen Yuan, the bank governor, has also said the SDB would be keen to issue bonds denominated in euros "if the market gives us a chance".

STOCK MARKETS OTHER COMPANIES ARE BENEFITING FROM THE DEMAND FOR ON-LINE STOCKS

Internet mania extends its reach

By Richard Waters in New York

The internet mania gripping the US stock market has spread, touching other companies whose fortunes appear most closely linked to the on-line world, if Wall Street's current rally is anything to go by.

The shift has been powerful enough to alter the traditional pecking order in industries such as telecommunications and stockbroking – a sea-change in stock market sentiment that has gathered momentum in the final days of the year.

Among the beneficiaries of this spill-over have been companies such as Charles Schwab, the private-client broker which was a pioneer of on-line trading and investing, and MCI WorldCom, the telecoms company whose network carries a large part of the traffic for the internet.

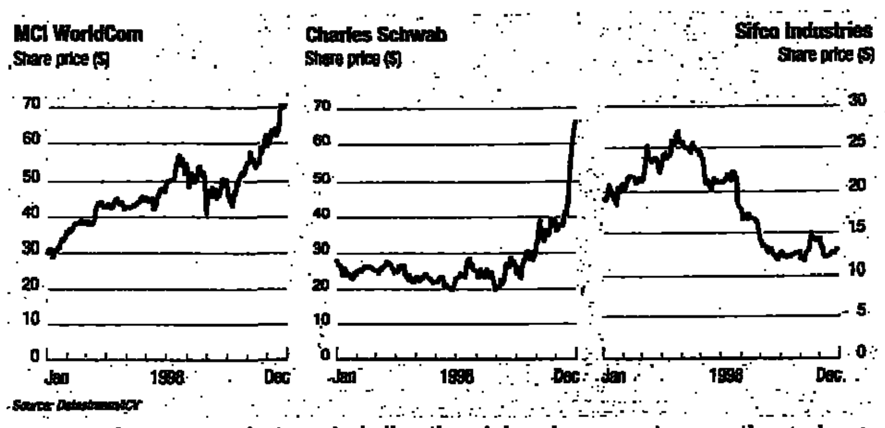
Shares in San Francisco-based Charles Schwab jumped another 12 per cent yesterday morning as investors continued to place a bet that the stockbroker would turn its early lead in the on-line world into a lasting advantage.

The mania for internet stocks that took hold at the beginning of December has also continued to fuel the rise of Cisco Systems, the company which makes most of the routers and other equipment on which the internet operates.

The shift has altered the pecking order in leading market sectors

The enthusiasm has lifted Schwab's stock market value by 70 per cent in the space of only eight trading sessions.

Coming after a strong year, the latest advance pointed to high hopes about the on-line future. The company's market capitalisation had jumped to $18bn by yesterday, up from $7bn at the start of the year.



Source: Datastream/ICV

Other brokerage stocks, meanwhile, are ending the year close to the levels they started it. As a result, Schwab now stands nearly shoulder-to-shoulder with Merrill Lynch, which is valued at $26bn – even though Schwab's $3.5bn or so of revenue this year makes it less than a tenth the size of Merrill.

A similar, though less dramatic, shift in the telecom sector briefly pushed the market capitalisation of MCI WorldCom above that of AT&T earlier this month. Because of the rapid growth of its data business, much of it tied to the emergence of the internet, MCI WorldCom's shares have climbed from $30 to $71 this year, far outpacing the 25 per cent advance at AT&T.

Despite getting caught up in the internet fever that has swept across the stock market, companies such as MCI WorldCom and Schwab still rely for the bulk of their revenues on activities that have nothing to do with the on-line world.

The enthusiasm for pure internet stocks continued unabated yesterday, lifting the shares of companies such as Amazon.com, the internet retailer, and America Online, the largest provider of internet access, by more than 10 per cent.

Israeli food retailers go back to their roots

After disappointing forays abroad Blue Square and Supersol are retrenching at home, reports **Judy Dempsey**

After venturing abroad, or expanding into other areas, Israel's two largest food retailers have decided to call it a day. They are returning home and concentrating on what they do best: selling food to Israelis.

For Blue Square and Supersol, a duopoly which has dominated Israel's food retailing sector for decades, the decision to focus on the domestic market came as both companies unveiled disappointing third-quarter results.

Blue Square, a public company also listed in Wall Street, reported an 8.1 per cent fall in quarterly same-store sales while net income fell 6 per cent to Shk19.4m ($4.63m).

Supersol's results were equally unimpressive. Its same-store quarterly sales declined 3.6 per cent and net income plummeted, falling 17.2 per cent to Shk27m.

Both retailers blamed the economic climate. Gross domestic product slowed to 1.5 per cent for most of 1998, allowing private consumption per capita to rise only 1 per cent compared with 1.5 per cent the previous year.

Inflation was another factor hampering strong growth, since food imports – worth more than $1bn a year – account for 10 per cent of total food consumption. The shekel fell in value against the dollar by 15-18 per cent between August and October. And inflation jumped in the last quarter of 1998.

With such an economic downturn, it may seem surprising that Supersol and Blue Square have decided to refocus on food retailing. But Keith Phillips, analyst at SG Securities in London, says: "Its what they both know how to do best."

Supersol's experiences in Hungary, where it established a presence in the mid-1990s, confirms this. It recently sold off its holdings there, having failed to make any impact on the local consumer.

"I think Supersol learnt that going overseas was very costly," said Mr Phillips. "You need experience, good management and marketing."

As it quit Hungary, Supersol – a publicly traded company controlled by Israel's Recanati family – also disposed of its office supplies and do-it-yourself outlets.

It then started restructuring the Shekem food stores which it bought in 1997 and invested in a new logistics centre aimed at reducing inventory and distribution costs.

And as if to underline its new focus, Supersol recently appointed the head of the technical and logistics division of the Israeli army, Major General Ami Sagis, as chief executive officer.

Blue Square has taken a hard look at its strategy as well. Unwilling to carry operating losses of Shk5.8m in its non-food activities during the third quarter of 1998, it recently agreed to sell Hamashbir, its department store operations, to Co-Op, the parent company.

Now that Supersol and Blue Square have decided to refocus on food retailing, competition in that sector is expected to increase, particularly in the food sector.

This is one area on which both companies appear eager to focus their efforts. The question is whether the Israel retailing sector is not already saturated.

"We know the market is a duopoly," said Stephen Levey, head of Warburg Dillon Read in Israel. "However, there is still a lot of scope for expansion of the supermarket chains."

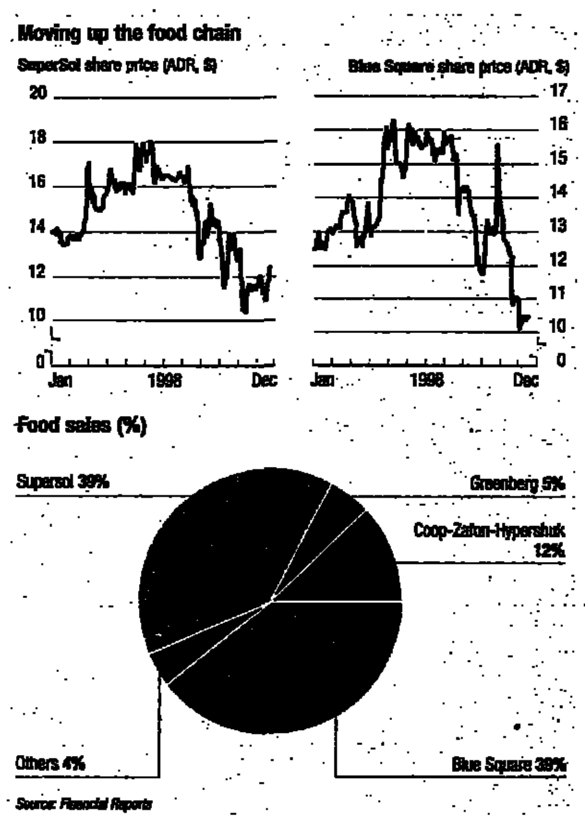
For example, the formal food retail sector accounts for about 80 per cent of total food retailing in the US and 60 per cent in Europe. That compares with a level of about 39 per cent in Israel.

To increase market penetration, both companies have ambitious expansion plans, which include introducing loyalty cards and own brand producers, a fairly new concept in Israeli retailing.

Supersol has recently added six stores across Israel and in 1999 intends to add a further 90,000 sq m of retail space to its existing 200,000 sq m. Blue Square plans to expand by 20 per cent over an unspecified period.

Despite competitive pressures, most analysts believe the duopoly will continue for some time. But in the meantime, Mr Phillips argues, "it's gloves off time".

Moving up the food chain



Source: Financial Reports

Laflachère is LVMH fund's first purchase

By Samer Iskandar in Paris

A newly-created venture capital fund controlled by LVMH, the French luxury goods group, yesterday made its first transaction by acquiring Laflachère for an undisclosed amount.

Laflachère's main asset is a stake of more than 70 per cent in Brosse et Dupont, France's leading toothbrush maker, with FFr996m ($177m) of sales and net profits of FFr31m for the year ending September 1997.

Laflachère and its new owners also offered FFr650 a share for the remaining share of Brosse et Dupont, which is listed on the Paris stock exchange, valuing the company at more than FFr1bn, analysts said. Brosse et Dupont shares rose FFr6 to FFr630.

LVMH said its unnamed investment fund would seek returns of at least 20 per cent on its investments, mainly in medium sized companies with annual sales of between FFr500m-FFr1bn.

Last week, LVMH halted talks about buying Sanofi Beauté, the beauty products arm of Sanofi, the chemicals company controlled by oil group Elf Aquitaine. Sanofi Beauté is to be spun off following the merger, announced earlier this month, of Sanofi's pharmaceutical activities with those of Synthélabo, the drugs group controlled by the cosmetics company L'Oréal.

LVMH said it had dropped its FFr6.5bn bid (including assuming FFr1.2bn of Sanofi Beauté debt) because "discussions revealed difficulties in integrating certain [Sanofi Beauté] brands with the perfume division of LVMH".

Analysts have warned the merger would create conflicts of interest in the management of rival brands, such as LVMH's Christian Dior and Sanofi's Yves Saint Laurent.

It is also understood that Yves Saint Laurent, founder of the eponymous fashion group now controlled by Sanofi, had demanded to retain long term control over the image and marketing of some brands, in exchange for his co-operation with the would-be buyers.

"As these difficulties appeared to be an obstacle to obtaining the expected synergies, LVMH has withdrawn from the sale process," LVMH said.

Sanofi said Lazard Frères, the investment bank advising it on the sale, would continue negotiating with other interested groups.

NEWS DIGEST

ELECTRONICS

Philips sells part of stake in US car guidance group

Philips NV is selling part of its stake in US-based Navigation Technologies Inc (NavTech), a leader in car guidance technology, to a financial consortium involving a Dutch bank. Philips, a leading electronics group, gave no financial details of the sale, which will cut its interest in NavTech to around 40 per cent from more than 60 per cent. Analysts said the move was proof of Philips' determination to dispose of loss-making concerns.

"NavTech is one of the last bleeders," said Bart Siebrand, an analyst at SNS Securities in Amsterdam, referring to chief executive Cor Boonstra's 1996 pledge to root out loss-makers. Over the past two years Philips has divested numerous non-core interests, including entertainment group PolyGram and vehicles unit Philips Car Sales.

Losses at NavTech, which supplies continuously updated route guidance map databases in the US and Europe, are estimated at Fl 150m to Fl 200m ($79m to $106m) annually, analysts say, mainly linked to start-up and research costs. News of the sale fostered positive sentiment on the Amsterdam stock exchange, where Philips shares climbed 2.38 per cent to Fl 128.80.
Reuters, Amsterdam

REFRIGERATION

Qingdao Haier sales rise

Qingdao Haier, China's leading refrigerator manufacturer, saw 1998 sales rise by 50 per cent over the previous period to RMB16.2bn ($1.96bn) by December 26, the China Daily said yesterday. Exports rose 36 per cent year-on-year as Haier focused sales on Europe and the US. Analysts say the company is one of the few local enterprises with credible ambitions of becoming an internationally competitive company.

Zhang Ruimin, president, said 60 per cent of overseas sales of domestic appliances went to Europe and the US, while only 16 per cent were sold in south-east Asia. Haier, which has led the recapture of the local white goods market by domestic manufacturers from foreign competitors, derives most of its revenue from Chinese customers, having earned only $56m last year from exports.

Haier merged 18 companies with losses of more than RMB500m in eastern Shandong, Zhejiang and southern Guangdong provinces, turning them into profitable businesses, the China Daily said. **James Harding, Shanghai**

INDONESIAN OIL

Pertamina cancels contracts

Indonesian state oil firm Pertamina has cancelled the contracts for 152 projects, mostly linked to the family and associates of former President Suharto, because of alleged corruption in the way they were awarded. "We have concluded the investigation of 152 projects in Pertamina, including exploration and catalysts for its refineries," said Kuntoro Mangkusubroto, mines and energy minister.

Mr Kuntoro said cancellation of the suspect projects would save Pertamina $64.7m in dollar expenses and Rp212bn ($26.5m) in rupiah costs. He said there were still seven projects under further investigation, including the Balongan refinery in West Java and technical assistance contracts in Sembakung.

The government of President B.J. Habibie has launched an official probe into Mr Suharto's wealth, amid growing public pressure for the former president to brought to court for alleged corruption during his 32 years in power.
Reuters, Jakarta

CORRECTION

Daiwa Securities

Daiwa Securities forged a joint-venture this year with Sumitomo Bank, not Sumitomo Trust as stated in the Financial Times yesterday.

Japanese contractors warn of deeper losses

By Alexandra Harney in Tokyo

Japan's embattled construction sector suffered another blow yesterday when Tokyu and Fujita Construction, two of the country's largest contractors, warned that losses would be more than double those earlier forecast and unveiled massive restructuring plans aimed at reducing high levels of interest-bearing debt.

The warnings underlined the seriousness of the crisis in the construction sector. The collapse in demand for projects and the sharp decline in land and equity values as a result of the prolonged economic recession are forcing a growing number of contractors to negotiate with lenders for debt forgiveness plans and even file for bankruptcy.

Tokyu said it expected parent net losses to balloon to Y90bn ($775m) by next March, compared with losses of Y12.17bn last year, although company executives admitted it was likely to incur further extraordinary losses as a result of restructuring.

The announcement marked a rapid downward revision: in late November, the contractor had expected net losses of Y37bn on turnover of Y495bn. Yesterday, Tokyu also lowered its sales forecast to Y472bn.

Analysts said the restructuring plan, approved at a board meeting yesterday, was clearly managed by Tokyu Corporation, the diversified group that is the contractor's largest shareholder. The plan called for the immediate resignation of president Tetsu Goto and the appointment of Kuniyoshi Iharu, former Tokyu Corporation vice president, in his place.

It represents the contractor's latest attempt to limit the damage from the growing crisis in Japan's construction sector, which has left companies that expanded aggressively during the economic bubble in the 1980s and early 1990s with huge property and equity holdings now worth a fraction of their purchase value.

Chief among the three-year plan's initiatives were the elimination of 1,500 jobs, a near-complete withdrawal from overseas operations, the sale of assets and a Y30bn third-party share increase. The contractor hopes to lower its interest-bearing debt burden by Y83bn, from Y379bn this year to Y296bn by the end of 2003.

Most of the job cuts, which represent 35 per cent of the workforce, would be achieved through a voluntary retirement scheme, which would eliminate 1,300 positions. The rest would be lost through natural wastage, said Mr Iharu.

The Tokyu group, which is expected to purchase all of the shares in the Y30bn third party share issuance as part of the rescue package later this year, encompasses an estimated 400 companies, with businesses ranging from petrol sales to railways, hotels and travel agencies.

The bulk of the debt reduction would be achieved through the sale of stocks and property holdings, company executives said. The plan includes the disposal of Y44bn in debts from the sale of property holdings and uncollected construction project fees, as well as the disposal of Y48bn worth of debts from subsidiaries.

Tokyu Construction has 11 overseas subsidiaries and about 10 units in Japan.

The group's shares edged up slightly, finishing at Y88, which is Y2, or 2.3 per cent, above their close last week.

Thomson-CSF cleared for talks with GEC

By David Owen in Paris

French government officials yesterday confirmed giving the Thomson-CSF defence electronics group clearance to discuss a possible tie-up with the defence unit of the UK's General Electric Company, but said they would expect any agreement to be "balanced".

The officials also made clear it was very unlikely the French government would consent to selling the state's 40 per cent holding in Thomson completely in the context of such a deal.

They indicated that they hoped to hear more from Denis Ranque, Thomson-CSF chairman, on the likelihood and possible terms and conditions of an agreement in the first half of January.

Their comments came after Thomson-CSF said it had won the full backing of the government to pursue a merger with Marconi Electronics, GEC's defence unit. Mr Ranque said the government had agreed to reduce the state's shareholding to below 10 per cent if necessary to complete the transaction.

The officials suggested Paris would expect any deal to strike a balance on points such as the management and decision centres of a combined entity.

However, they drew a distinction between the government's likely bottom line in any Thomson merger and the situation at Airbus, where a planned restructuring has been thrown into confusion by a squabble between the consortium's main shareholders and Germany's Dasa, saying France's state-owned Aerospatiale had demanded 50 per cent in a restructured Airbus.

In its current shape and financial structure, Thomson-CSF is likely to be the junior partner in any deal with Marconi, but is holding out for more than a 40 per cent share in any merged entity.

The officials emphasised that government reluctance to contemplate selling out of Thomson-CSF – or the soon to be privatised Aerospatiale – entirely was on "strategic" rather than "ideological" grounds.

In essence, Paris is keen to ensure a stable shareholder base and remains wary of any deal it feels might leave the future of such important components of Europe's defence industry in the hands of a small number of large institutional investors.

The officials also stressed that a tie-up involving GEC was just one of a number of options for Thomson-CSF. GEC has equally made it clear that a deal with the French company is not its only option.

Nevertheless, a string of well placed government and industry representatives have indicated in recent weeks that they believed a GEC/Thomson deal was one of the most likely outcomes of the current burst of merger negotiations in the European defence industry. Asked yesterday whether Mr Ranque had also been given clearance to talk to British Aerospace, French officials said this had not been asked for.

Treasuries stage recovery

GOVERNMENT BONDS

By Richard Waters in New York and agencies

US Treasuries staged their first rally in more than a week in morning trading, erasing some of the losses that had accompanied the fading of hopes for another early cut in short-term interest rates.

However European bond markets were subdued due to the holiday period and lack of interest ahead of the introduction of the euro.

Dealers said that with the European single currency's birth only days away, there was little desire to carry out trades that could straddle the "conversion weekend", which stretches from December 31 to January 4.

Activity was kept to the long end of the German market but this was mostly year-end book-keeping.

The rebound in the US stemmed a decline in prices that had added around 25 basis points to the yield on 30-year Treasury bonds over the previous two weeks.

It reflected the generally positive background for Treasury bonds as the year draws to a close, despite the recent retreat in prices, according to Wall Street economists.

In light trading yesterday morning in New York, the long bond advanced 11/32 to 101 1/32. That pushed the yield down some four basis points from the level touched just before the Christmas holiday, to 5.173 per cent.

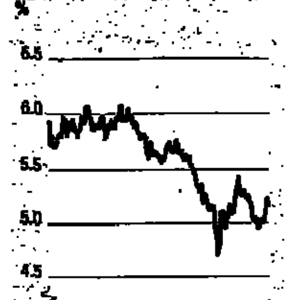
Shorter-dated securities had a mixed morning, contributing to the flattening of the US yield curve that has accompanied the fading of hopes for a rate cut. Two-year notes were unchanged at 99¾, yielding 4.761 per cent, while 10-year bonds rose 8/32 to 101 5/32, pushing the yield down to 4.797 per cent.

The yield on long-term bonds may have bounced back above 5 per cent, but it is still some 75 basis points lower than the start of the year, because of a continued decline in consumer price inflation during the year. Also, while the US economy has surprised most economists with its strength throughout the year, most expect it to weaken in 1999.

The bond market's belief that the Federal Reserve will not cut interest rates again soon seemed to be confirmed last Thursday, when the publication of the minutes from November's Open Market Committee meeting showed that the Fed was no longer following a bias towards cutting rates.

US 30-year bond yield

%



Source: Datastream/ICV

IRON ORE AUSTRALIAN INDUSTRY EXPECTS BIG FALL IN NEGOTIATIONS WITH JAPANESE STEEL GROUPS

Producers braced for cut in prices

By Steven Wyatt and Gwen Robinson in Sydney

Australian iron ore producers are braced for a sharp cut in prices in forthcoming contract price negotiations with Japanese steel producers after the collapse of coking coal prices in similar talks last month.

As the iron ore exporters prepare for the January talks – which traditionally set an international benchmark for iron ore prices – their negotiating environment could not be worse.

Japanese steel production has fallen steadily this year and is set to reach its lowest in nearly three decades at about 92m tonnes in the financial year to March.

The global outlook is also poor, with the International Iron and Steel Institute confirming that world steel production in November fell an annual 9.3 per cent, the largest drop since early 1983.

However, the most daunting development for Australia's iron ore industry was the 18 per cent price cut accepted by coking coal exporters in negotiations earlier this month with Japanese steel companies.

Before the coal price cut, which applies to exports in the year to March 2000, analysts had predicted a 5 per cent cut for iron ore producers. Most have revised their expectations to an average cut of about 10 per cent, said Alan Heap, commodities analyst at Salomon Smith Barney in Sydney.

Australia's leading iron ore exporters include Hamersley Iron, a unit of Anglo-Australian company Rio Tinto, Broken Hill Proprietary and Robe River, an offshoot of North Ltd.

The industry is linked closely with pig iron because, along with coking coal, iron ore is the primary raw material used to produce blast furnace pig iron.

However, world pig iron production is declining rapidly. It fell 8.6 per cent in November, while production in western countries fell nearly 10 per cent, according to Macquarie Equities.

Weakness started in Asia but the latest data show US pig iron production fell 19 per cent in November while European production slid nearly 11 per cent.

Japanese crude steel production, meanwhile, fell an annual 13.6 per cent in November, while pig iron production fell 8.6 per cent for a fall of 4.3 per cent over the 11 months to November.

Analysts say worse is to come. "We would expect further deterioration in pig iron production, especially in Japan," said Mr Heap.

The link between iron ore and coal prices, however, is not always close, and iron ore may not suffer as big a cut as coal, according to Adam Rowley and Jim Lennon, commodities analysts at Macquarie Equities.

Last year, for example, iron ore prices rose nearly 3 per cent while hard coking coal prices were cut by nearly 5 per cent. Also, oversupply in the coal market is greater than in iron ore, Mr Lennon said.

"We are sticking with our prediction of a 7 per cent cut in iron ore fines prices and a 10 per cent cut in lump," he said.

The one positive factor for Australia's leading coking coal exporters in their Japanese negotiations was an agreed increase in export volumes, and analysts said that iron ore negotiators may be similarly motivated to take deeper price cuts earlier in order to maintain export volumes.

Murdoch extends European TV plans

The media tycoon is close to acquiring another minority stake

By Paul Betts in Milan

Rupert Murdoch, fresh from his preliminary agreement to buy a controlling stake in a new Italian pay TV network, is close to acquiring a minority stake in another European television partnership involving Germany's Kirch group and the Italian Mediaset commercial TV network.

Rupert Murdoch

The two separate but concurrent moves are part of the media tycoon's efforts to build up a significant television broadcasting presence in continental Europe.

Italian newspapers yesterday reported that representatives of Mr Murdoch, Mediaset and Prince Al Waleed of Saudi Arabia were putting the final touches to an agreement that would see them take minority stakes in the Kirch group's new Taurus Holding company.

The deal is part of the German group's efforts to reduce its heavy debt burden at the same time as preparing the new company for a stock market listing next year.

If successful, it will also constitute the basis of a new European television partnership that would draw on the Kirch group's extensive film library as well as its TV rights for the 2002 and 2006 soccer World Cup championships.

The new company will control both the soccer rights and the film library as well as other Kirch digital TV channels.

The Saudi financier is expected to invest about $400m for a stake in the holding company while Mr Murdoch could invest up to $1bn. Fininvest, the holding company of Silvio Berlusconi, the former prime minister and Italian media tycoon, is said to be considering shedding a 13 per cent stake in its Mediaset TV group to join the partnership. Mediaset is also negotiating a separate industrial alliance with Kirch.

Fininvest yesterday denied press reports that a decisive round of talks was due to take place in Milan over the New Year break. However a Finivest official said the partners hoped to complete the negotiations after then.

Mr Murdoch's preliminary agreement to acquire from Telecom Italia up to 80 per cent of its Stream digital TV venture yesterday boosted the privatised telecommunications group's shares by more than 3 per cent on the Milan stock exchange.

The agreement with Mr Murdoch appeared to confirm the commitment of Franco Bernabe, Telecom Italia's new chief executive, to refocus the group on its core telecommunications businesses. Telecom Italia plans to retain a 20 per cent stake in the digital TV venture to maintain a foothold in new interactive communications technologies.

Under the preliminary deal with Mr Murdoch, Telecom Italia would retain exclusive rights to provide Stream subscribers with new interactive communications services. However, the deal still hinges on Mr Murdoch's News Corporation securing the pay TV rights for Italian professional soccer.

Italian press reports yesterday claimed Mr Murdoch's new News Corp Europe subsidiary, headed by Letizia Moratti, a former president of the Italian RAI state broadcasting network, was close to securing the pay TV rights from a number of Italian clubs including Roma, Lazio, Parma, Sampdoria of Genoa and Fiorentina, the leader in the Serie "A" league.

COMMODITIES PRICES

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	65.20	+0.60	65.50	64.40	1,088	828
Jan	65.65	+0.50	66.00	64.90	921	4,087
Feb	66.15	+0.50	66.30	66.30	26	2,134
Mar	66.60	+0.50	67.00	65.70	1,276	46,511
Apr	67.00	+0.50	–	–	15	1,503
May	67.40	+0.55	67.65	66.80	49	5,871
Total					3,433	78,347

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol.	Open int
Dec	286.6	+0.5	287.0	285.7	18	145
Feb	287.8	+0.3	288.2	287.0	5,344	68,802
Apr	289.8	+0.3	290.2	289.2	394	22,146
Jun	291.5	+0.3	291.8	291.1	128	15,639
Aug	293.3	+0.2	293.1	293.1	103	6,804
Oct	295.0	+0.2	–	–	–	2,536
Total					26,980	160,714

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol.	Open int
Jan	347.7	+4.0	348.5	343.0	287	5,064
Apr	351.0	–	351.8	347.0	563	6,674
Jul	352.7	+3.0	350.0	350.0	10	465
Oct	354.0	+3.0	–	–	21	1,094
Total					2,688	13,630

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol.	Open int
Mar	319.20	+9.65	319.80	312.00	67	2,625
Jun	313.20	+9.65	–	–	5	58
Sep	311.20	+9.65	–	–	–	127
Total					214	2,808

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol.	Open int
Dec	489.8	+0.6	491.5	487.0	25	38
Jan	490.4	+0.5	489.0	489.0	1	51
Mar	493.6	+0.5	494.5	491.5	2,311	51,837
May	495.8	+0.5	497.5	495.0	13	6,627
Jul	499.3	+0.5	498.5	498.0	12	6,398
Sep	501.7	+0.5	502.0	502.0	–	1,577
Total					7,557	76,322

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Feb	11.43	+0.20	11.56	11.24	17,137	111k
Mar	11.67	+0.21	11.77	11.51	5,225	56,058
Apr	11.96	+0.23	11.96	11.76	1,354	31,307
May	12.25	+0.26	12.25	12.00	359	24,263
Jun	12.42	+0.20	12.42	12.20	296	25,280
Jul	12.60	+0.15	12.60	12.44	702	21,511
Total					28,897	476,271

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	32.45	+0.26	32.70	32.00	4,233	24,644
Feb	33.25	+0.06	33.60	33.00	4,940	53,437
Mar	34.00	+0.26	34.10	33.70	420	23,904
Apr	34.35	+0.21	34.55	34.15	512	18,007
May	34.80	+0.21	35.08	34.80	1,175	10,597
Jun	35.70	+0.46	35.70	35.30	408	11,102
Total					12,535	186,145

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	1.810	–0.071	1.840	1.800	16,862	33,682
Feb	1.810	–0.068	1.840	1.800	3,745	44,248
Mar	1.830	–0.053	1.845	1.820	1,314	27,785
Apr	1.830	–0.039	1.840	1.820	822	16,720
May	1.850	–0.040	1.870	1.845	403	12,507
Total					24,198	243,198

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	34.00	+0.86	34.30	33.15	5,669	14,391
Feb	35.40	+0.77	35.70	34.60	3,985	32,386
Mar	36.90	+0.77	37.05	36.05	786	10,319
Apr	40.00	+0.62	40.00	39.60	278	14,404
May	41.20	+0.82	41.20	40.50	196	12,071
Jun	41.65	+0.52	41.75	41.10	108	9,072
Total					11,314	108,254

FUTURES DATA
All futures data supplied by CMS.

GRAINS AND OIL SEEDS

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	282.50	–0.25	285.25	280.75	9,153	72,052
May	292.00	–0.50	293.75	290.75	753	11,415
Jul	302.00	–	304.00	300.50	1,959	28,555
Sep	312.00	–0.50	313.00	311.00	65	1,550
Dec	325.00	–0.50	326.00	324.00	28	1,662
Total					11,956	115,234

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	219.25	–1.50	221.75	218.50	11,918	174,970
May	226.25	–1.50	228.75	226.00	2,276	51,353
Jul	232.50	–1.25	234.75	232.00	2,709	57,474
Sep	238.75	–1.00	240.75	238.75	834	13,014
Dec	244.25	–1.25	246.50	244.25	709	27,578
Mar	251.75	–1.25	254.00	251.25	225	1,845
Total					18,745	328,462

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	543.25	–4.75	552.00	543.00	8,952	30,557
Mar	545.75	–5.75	555.50	545.00	10,197	52,421
May	553.00	–5.75	559.50	552.00	1,059	16,403
Jul	558.00	–5.75	565.00	557.25	1,317	22,123
Aug	558.50	–5.50	564.00	558.00	197	4,925
Sep	557.00	–6.00	564.00	558.00	10	967
Total					22,322	140,513

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	23.04	–0.10	23.25	22.90	2,271	17,532
Mar	23.35	–0.09	23.55	23.20	3,409	44,931
May	23.63	–0.04	23.77	23.47	398	15,943
Jul	23.83	–0.05	24.05	23.70	198	16,956
Aug	23.93	–0.06	23.97	23.80	248	3,757
Sep	23.99	–0.06	24.03	23.95	15	2,520
Total					8,584	187,810

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	143.4	–1.1	144.9	143.0	2,724	28,430
Mar	141.7	–2.2	144.5	141.5	3,465	41,134
May	142.8	–2.4	145.3	143.0	452	15,708
Jul	144.8	–2.4	147.2	145.0	526	20,476
Aug	146.5	–2.1	148.3	148.4	336	4,755
Sep	147.6	–2.1	149.8	148.0	113	4,583
Total					7,713	120,489

SOFTS

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1395	+4	1399	1383	1,478	37,887
May	1418	+4	1419	1404	96	16,727
Jul	1441	+2	1437	1437	8	5,815
Sep	1464	+2	1461	1461	28	4,345
Dec	1497	+2	–	–	28	5,383
Mar	1528	+2	–	–	73	6,227
Total					1,682	76,459

■ COCOA (ICCO) (SDR's/tonne)

Dec 23	Price	Prev. day
Daily	1057.09	1060.77

■ COFFEE "C" CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	115.10	+1.00	115.25	113.80	2,553	23,678
May	116.15	+1.15	116.20	115.00	291	5,756
Jul	117.00	+1.75	118.50	115.75	14	2,488
Sep	117.80	+1.05	116.75	116.75	19	1,660
Dec	118.80	+1.15	–	–	26	801
Mar	119.80	+1.15	–	–	9	65
Total					2,908	34,433

■ COFFEE (ICO) (US cents/pound)

Dec 24	Price	Prev. day
Comp. daily	101.73	100.87
15 day average	101.17	100.90

■ SUGAR "11" CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	7.58	–0.04	7.68	7.55	2,544	76,516
May	7.61	–0.07	7.73	7.58	984	22,382
Jul	7.53	–0.08	7.63	7.52	375	21,772
Oct	7.74	–0.08	7.83	7.79	132	16,026
Mar	8.02	–0.05	8.03	8.03	89	9,867
May	8.11	–0.05	8.10	8.10	13	2,127
Total					4,104	149,170

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	60.28	+0.34	60.75	59.45	1,386	34,488
May	61.28	+0.35	61.75	60.60	382	16,238
Jul	62.35	+0.43	62.80	61.70	166	12,070
Oct	63.98	+0.20	64.20	64.00	23	1,563
Dec	64.93	+0.08	65.25	64.80	123	11,894
Mar	65.95	–	–	–	82	1,075
Total					2,088	77,645

Softs continued

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	106.70	+1.40	107.20	105.80	1,065	7,939
Mar	108.75	+1.35	109.50	107.85	1,123	11,539
May	109.75	+1.50	110.00	108.20	210	2,442
Jul	110.65	+0.95	111.25	110.65	116	1,672
Sep	111.15	+0.95	–	–	48	213
Nov	111.15	+0.95	111.50	111.50	–	531
Total					2,418	24,524

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Dec	60.988	+0.650	61.150	60.300	778	1,760
Feb	61.000	+0.675	61.425	60.350	5,047	42,458
Apr	63.550	+0.500	63.900	63.150	2,054	30,894
Jun	63.525	+0.500	63.725	62.800	1,287	16,675
Aug	63.950	+0.525	64.125	63.400	346	9,594
Oct	65.500	+0.550	65.700	64.850	156	4,308
Total					9,698	107,371

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	32.400	+1.325	32.950	30.550	1,928	18,146
Apr	37.575	+0.100	38.050	36.850	1,008	9,673
Jun	49.100	+0.275	49.375	48.500	484	8,583
Jul	51.925	–0.275	52.500	51.750	189	3,744
Aug	53.975	–0.375	54.600	53.850	147	2,863
Oct	53.900	–	54.400	53.850	73	2,171
Total					3,862	44,083

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	45.100	+3.000	45.100	41.875	363	4,733
Mar	45.000	+3.000	45.000	42.400	96	1,794
May	46.750	+3.000	46.750	44.400	20	907
Jul	48.175	+2.925	48.250	45.200	14	847
Total					478	7,751

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

JOTTER PAD

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

WORLD BOND PRICES

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	111.00	110.92	-0.22	111.00	110.82	2,741	86,370

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jan	Mar		PUTS Jan	Mar	
109	2.55	2.68	-	-	0.13	-
110	1.56	1.83	-	0.01	0.29	-
111	0.58	1.13	-	0.01	0.58	-
112	0.03	0.62	-	0.48	1.06	-

Est. vol. total, Calls n/a Puts n/a . Previous day's open int., Calls n/a Puts n/a .

Germany

■ NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	115.10	115.24	–0.06	115.30	115.08	21,137	280,425

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jan	Feb	Mar	PUTS Jan	Feb	Mar
11550	0.37	0.78	1.05	0	0.41	0.68
11600	0	0.52	0.79	0.13	0.65	0.92
11650	0	0.32	0.58	0.63	0.95	1.21

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 0

■ NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	108.64	108.61	–0.08	108.64	108.80	7,098	167,528

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	113.42	113.28	-0.14	113.42	113.18	243	37211

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Feb	Mar	PUTS Feb	Mar
11350	0.57	0.79	0.39	0.60
11400	0.33	0.55	0.64	0.86
11450	0.17	0.38	0.98	1.17

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 0 Puts 5000

10 YEAR BENCHMARK SPREADS

Dec 28	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	4.99	+1.10	+0.19
Austria	4.01	+0.12	–0.79
Belgium	4.16	+0.27	–0.64
Canada	5.02	+1.13	+0.22
Denmark	4.21	+0.32	–0.59
Finland	4.10	+0.21	–0.70
France	3.95	+0.06	–0.85
Germany	3.89	-	–0.91
Ireland	4.09	+0.20	–0.71
Italy	4.08	+0.19	–0.72
Japan	1.91	–1.98	–2.89
Netherlands	4.03	+0.14	–0.77
New Zealand	5.56	+1.67	+0.76
Norway	5.40	+1.51	+0.60
Portugal	4.17	+0.28	–0.63
Spain	4.08	+0.19	–0.72
Sweden	4.25	+0.36	–0.55
Switzerland	2.49	–1.40	–2.31
UK	4.44	+0.55	–0.36
US	4.80	+0.91	-
ECU	3.99	+0.10	–0.81

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

US INTEREST RATES

Close

		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	-	Two year	4.71
Broker loan rate	6½	Two month	-	Three year	4.68
Fed.funds	5⅛	Three month	4.56	Five year	4.64
Fed.funds at intervention	5⅛	Six month	4.68	10-year	4.78
		One year	4.66	30-year	5.16

EMERGING MARKET BONDS

Dec 28	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB–	95.4775	8.66	–	–1.51	+3.96
Poland	07/04	7.125	BBB–	104.7631	6.07	–	–0.18	+1.37
Russia	06/07	10.000	n/a	23.6909	46.60	–	+7.27	+41.82
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	90.2080	10.86	–	+0.10	+5.71
Brazil	05/27	10.125	BB–	68.0940	14.98	–	+1.63	+9.83
Mexico	05/26	11.500	BB	107.2986	10.67	–	+0.28	+5.54
■ ASIA								
China	07/06	7.750	BBB+	104.5582	6.94	–	+0.03	+2.19
Philippines	10/16	8.750	BB+	95.9051	9.22	–	+0.22	+4.27
Thailand	04/07	7.750	BBB–	98.0145	8.08	–	–0.48	+3.30
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	103.4542	6.70	–	–0.15	+1.99
South Africa	10/06	8.375	BB+	96.1197	9.06	–	–1.83	+4.33
Turkey	09/07	10.000	B	87.5112	12.40	–	+1.12	+7.62
■ BRADY BONDS								
Argentina	03/23	5.750	BB	71.8750	8.82	–	+0.26	+3.74
Brazil	04/14	5.000	BB–	59.7500	13.94	–	+1.86	+9.03
Mexico	12/19	6.250	BB	78.1366	8.50	–	–	+3.50
Venezuela	03/20	6.750	B+	69.5258	10.37	–	–0.70	+5.29

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

US CORPORATE BONDS

Dec 28	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
■ UTILITIES								
Pac Bell	07/02	7.25	AA–	105.8819	5.38	+0.12	+0.01	+0.75
NY Tel	08/25	7.00	A+	101.4830	6.87	+0.03	+0.04	+1.58
CHE	05/08	8.00	BBB	114.3213	5.98	+0.07	–0.07	+1.18
■ FINANCIALS								
GECC	05/07	8.75	AAA	120.3933	5.66	+0.09	–0.03	+0.86
Banc One	08/02	7.25	A	104.8962	5.71	+0.13	+0.13	+1.08
CNA Fin	01/18	6.95	A–	98.6269	7.27	+0.06	–0.33	+2.08
■ INDUSTRIALS								
WMX Tech	04/99	6.25	BBB+	100.0369	6.01	+0.07	+0.25	+1.56
Wal Mart	05/02	8.75	AA	105.0824	5.09	+0.13	+0.04	+0.46
Dayton Hud	06/21	9.70	A–	134.2333	6.72	+0.07	–0.06	+1.53
■ AGENCIES								
FHLMC	04/07	7.14	N/A	111.0958	5.45	+0.09	+0.13	+0.95
SLMA	03/00	7.50	N/A	102.6433	5.19	+0.07	+0.10	+0.49
FNMA	02/18	8.95	N/A	135.8333	5.81	+0.07	+0.19	+0.82
FFCB	06/08	8.95	N/A	121.3217	5.42	+0.11	+0.20	+0.62
■ HIGH YIELD								
Stone Cont	02/01	9.88	B	101.5000	0.80	–	–	–
AK St	12/01	9.13	BB–	103.5000	0.90	–	–	–
Pacalia	06/04	10.75	B–	95.1250	0.00	–	–	–

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	115.88	116.31	+0.37	116.33	115.84	4,808	22,907

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	–	108.74	-0.37	–	–	0	250

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	126–15	126–29	–	126–31	125–26	83,857	592,661
Jun	125–31	126–15	–	126–15	125–12	506	12,563
Sep	125–13	125–00	–	125–13	125–00	136	5,085

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	129.44	130.02		130.09	129.44	1732	n/a
Jun		130.26				0	n/a

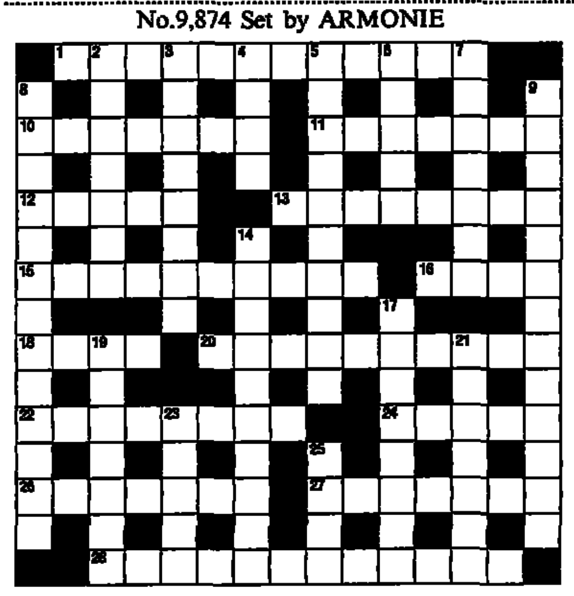
INTERNATIONAL BONDS

Dec 28	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
■ EURO DM								
EIB	02/07	5.750	AAA	110.8000	4.16	–	–0.07	+0.22
Spain	01/07	5.750	AA	110.9318	4.12	–	–0.14	+0.18
Philip Morris	03/04	5.375	A	104.8973	4.30	–	–0.07	+0.70
Finland FRN	09/02	3.406	AA	100.4294	2.82	–	–0.09	–0.55
■ EURO FFR								
Austria	01/04	5.500	AAA	108.6300	3.60	–	–0.20	+0.08
Abbey Nat	02/04	6.000	AA	110.4400	3.73	–	–0.18	+0.21
Cred Foncier	02/04	9.125	A	123.4900	3.98	–	–0.18	+0.48
SCIF FRN	12/01	3.825	AA–	100.0539	3.19	–	–0.14	–0.10
■ EURO LIRA								
EIB	02/07	7.000	AAA	119.4200	4.14	–	–0.13	+0.20
Abbey Nat	02/02	6.600	AA	109.3100	3.61	–	–0.16	+0.35
Walt Disney	06/00	8.625	A	106.9700	3.67	–	–0.15	+0.51
EIB FRN	03/01	3.053	AAA	99.5090	3.16	–	–0.13	+0.02
■ EURO £								
EIB	12/07	7.625	AAA	117.2143	5.17	–	–0.18	+0.71
Dresdner Bk	12/07	7.750	AA–	110.7433	6.15	–	–0.37	+1.69
British Gas	03/00	7.625	A+	102.1171	5.79	–	–0.41	+0.85
Abbey Nat FRN	02/02	7.136	AA	100.1409	4.72	–	–0.22	+0.20
■ EURO $								
EIB	04/07	7.250	AAA	112.4503	5.35	–	–0.01	+0.57
ABN Amro	08/07	7.125	AA–	104.8384	6.36	–	–0.09	+1.58
Quebec	01/07	7.000	A+	106.8538	5.92	–	+0.05	+1.14
Citicorp FRN	02/04	5.312	A+	94.6878	6.63	–	–0.09	+1.83
■ EURO C$								
Bayer L-Bk	08/04	9.500	AAA	119.2086	5.43	–	–0.07	+0.15
Toronto	05/04	8.500	AA+	113.6065	5.51	–	+0.07	+0.23
Bell Canada	07/99	10.625	A+	102.6821	5.30	–	–0.04	+0.06
Deutsche B FRN	09/02	5.875	AA+	101.2371	5.50	–	–0.07	+0.29
■ EURO YEN								
World Bank	03/02	5.250	AAA	113.7698	0.90	–	+0.44	–0.32
Spain	03/02	5.750	AA	115.2081	0.95	–	+0.43	–0.27
Cred Foncier	06/02	4.750	A	111.0334	1.58	–	+0.56	+0.36
Italy FRN	07/99	0.461	AA	100.0345	0.42	–	+0.23	–0.13

London closing. Standard & Poor's ratings. Yields: Local market standard/Annualised basis. Source: Interactive Data/FT Information

CROSSWORD

No.9,874 Set by ARMONIE



ACROSS

1 Winger prevaricates even before disagreement (5,7)
10 He interrupts clerk – he is upset (7)
11 Sounds like one who swindles a sprinter (7)
12 Oriental artist accompanied by patron of the arts (5)
13 Kentish soldier in Slough renders Psalm 51 (8)
15 Small creature revealed by joiner in the grass (4,6)
16 US president in the backwoods (4)
18 What do you say about a cent for every one (4)
20 Doctor's right to carry fish in old vehicle (10)
22 Plant in jar, grew (8)
24 Throw to the ground (5)
26 Al, put in disarray concerning wedding (7)
27 Hide a bit of earthenware among the soapsuds (7)
28 A certain "barbarian" enters into the fun of a motor rally (8,4)

DOWN

2 Tether mad canine – about an hour (7)
3 Account raised on German town's burial ground (8)
4 When getting up, Archer is touchy (4)
5 Famous Greek dares somehow to collect a toll (10)
6 Always rising to receive English steward (5)
7 Perrier sustains engineer and painter (7)
8 It's distressing to an animal's auditory senses (13)
9 Agricultural workers listen for predator of the deep (8,5)
14 Purgative stops meals being digested (5,5)
17 Beat with cat-o'-nine-tails causing injury (8)
19 Prepare to fire a hole in old sports centre (7)
21 Rosewall retained a longing for the cookhouse (7)
23 "Lift the beams" we're told (5)
25 Disparagement from a breeder who keeps lurchers (4)

Solution to the Christmas Crossword on Saturday January 9.
Solution to yesterday's prize puzzle on Monday January 11.

Barclays predicts fall in home loan volumes

By Christopher Brown-Humes

Homeowners in the UK can look forward to lower mortgage costs and a stable housing market in 1999 but lenders face the prospect of reduced loan volumes, according to Barclays Mortgages.

It says base rates could fall below 5 per cent, dragging lenders' main mortgage rates down to about 6 per cent, compared with the 7.7 per cent typical today.

But there will be little, if any, growth in gross lending volumes and a fall in net lending is likely, the bank believes. This suggests another year of intense competition, exacerbated by a possible squeeze in margins, lies ahead for the main mortgage banks and building societies.

Barclays says economic slowdown will create a difficult background for the housing market in 1999, but buyer confidence is likely to rise as interest rates fall. "Homebuying activity is likely to be maintained at modest levels supported by falling mortgage rates and house price increases just above the rate of inflation," it believes.

Despite the recovery in house prices in the last two years, transaction levels have remained sluggish. This has brought a surge in competition between lenders, resulting in keenly priced offers to new customers and a sharp rise in remortgaging, where margins are typically thinner.

Barclays expects remortgaging activity to remain strong next year, peaking at about a third of gross mortgage lending.

Competition in the market has been increased by the determination of the remaining building societies to demonstrate the advantages of mutuality over bank status.

In addition, new operations such as Standard Life Bank and Egg, a direct banking arm of the Prudential, have entered the market with extremely competitive rates. So far margins have tended to drift downwards, rather than plunge sharply.

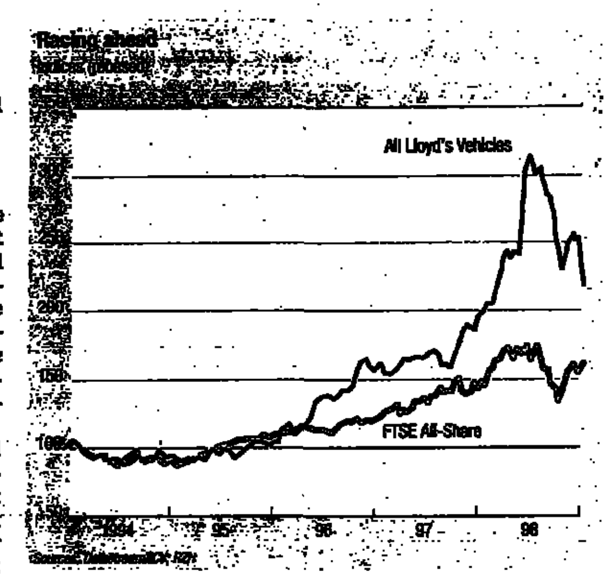
Some pundits believe mortgage rates may have to be kept artificially high in a low-interest environment, to ensure savers – who outnumber borrowers – continue to receive reasonable returns on their investments. They also believe lenders may try to protect their margins to offset the impact of a likely rise in defaults during a slowdown.

Jim Chadwick, Barclays Mortgages' marketing director, said: "There seems to be no sign of either boom or bust in mortgage lending or the housing market. Lending is now at its most stable for a number of years." Barclays said 42 per cent of consumers expected their homes to increase in value over the next 12 months, against 51 per cent this time last year.

Nationwide, the UK's biggest building society, has forecast a 3 per cent rise in house prices next year, with sales static at about 1.3m. In 1998, prices rose by about 7 per cent.

Capital punishment might follow Lloyd's revolution

Insurance market investment vehicles should prepare for a rough ride, writes **Andrew Bolger**



A spate of deals in the past few months at Lloyd's has underlined the rapid march in the insurance market towards the dominance of corporate capital and the growing presence of overseas groups – particularly large US and Bermudan companies.

In June, Bermuda-based Ace bought Charman Underwriting, one of the most profitable underwriting agencies at Lloyd's, for £315m ($526m) in a deal that gave it control over 9.3 per cent of the London market's capacity.

November saw the arrival of Warren Buffett, the billionaire US investor, as General Re paid about £100m for DP Mann, one of the largest remaining independent Lloyd's agencies. Berkshire Hathaway, Mr Buffett's investment group, acquired General Re, the largest US reinsurer, for $22bn in June.

As well as these high-profile transactions, there has been a steady stream of deals in which corporate capital providers have aligned themselves with Lloyd's managing agencies to form a nascent group of integrated insurance companies.

Following the financial crisis that brought it to the brink of collapse in the early 1990s, the restructuring of Lloyd's brought in corporate investors in 1994 to replace the dwindling band of Names, the individuals whose wealth traditionally supported the market. Since then, more than £3bn of corporate capital has flowed into Lloyd's, supporting 60 per cent of the market's underwriting capacity of more than £10bn.

Next year, the proportion of capacity supported by corporates could reach 75 per cent. Meanwhile, only 6,800 Names participated in the market this year, compared with a peak of 34,000 a decade ago, and next year the figure is expected to fall to about 5,000.

Yet these corporate investors have enjoyed mixed fortunes – at least in stock market terms. More than a dozen investment vehicles were launched in 1994, but they tended to be rated as investment trusts and traded at close to their net asset value. Things started to change after an amendment to Lloyd's regulations allowed capital providers to take a stake – and later wholly own – the agencies that manage underwriting syndicates.

Nicholas Johnson, an analyst with Raphael Zorn Hemsley, the stockbroker, said these deals allowed the combined operations to cut costs and align their capital more closely with the better quality syndicates. The companies could also then hope to be valued as integrated insurers, and not just passive investors. This change in status explains the outperformance of the FT All-Share by an index comprising Lloyd's vehicles, which are now mainly – but not solely – integrated insurance businesses. The outperformance accelerated earlier this year as investors finally grasped that these companies should carry a potential consolidation premium. Sentiment was also buoyed by the fact that their results were still reflecting earlier, profitable underwriting years.

But sentiment since then has cooled markedly – partly as a result of recent stock market turbulence, but mainly because of a growing realisation that underwriting conditions are very tough and will be for the foreseeable future.

Moody's, the credit rating agency, recently warned that mounting losses and testing marketing conditions had worsened the profit outlook for syndicates trading at Lloyd's. It said the forecast was now for a profit of just 1.4 per cent of the market's underwriting capacity in 1999, compared with the 12.1 per cent return recorded in 1995. The agency has also placed loss warnings on 32 per cent of the syndicates writing in 1998 and 30 per cent of those writing in 1999.

Mark Hewlett, managing director of Moody's European property, casualty and reinsurance division, said: "Unfortunately we do not foresee any immediate improvement in insurance rates for most business classes, a key determinant of profitability, due to the large amounts of excess capital remaining in world insurance markets."

Mr Johnson predicted that there would be more consolidation among Lloyd's quoted vehicles. "There are too many companies for a sector with a market capitalisation of £2.3bn," he said. "Investors will tend to favour the bigger companies."

He also believes the process of consolidation could result in some of the existing quoted companies being taken private. Lloyd's vehicles could prove particularly attractive to Bermudan companies that are seeking new areas for expansion and could use Lloyd's name and trading licences, which cover more than 60 countries.

The perils of current trading conditions were highlighted this month when Cox, the fast-growing Lloyd's insurer, issued a profit warning – and saw its share price drop 45 per cent.

Mr Johnson said: "In the long term, people like Warren Buffett and other insurers see these businesses as valuable, but current underwriting conditions create a difficult environment. People should be in no doubt about how difficult the 1998 and 1999 underwriting years already are and are going to be."

INSIDE TRACK

MANAGEMENT PRODUCT STANDARDS

New-style quality is just a fiddle

Old-style excellence got a bad name, says **Tony Jackson**. The aim should be provide a product consistently and make it the best you can

"[We] offer our customers", said the UK retailer Marks and Spencer last month when warning of falling profits, "attractive prices and unbeatable quality."

One does not want to pick on poor old M&S, which is going through a rough patch these days. But the term "quality" is one of the most abused in the business lexicon. What exactly *does it mean?*

Our grandparents would have been in no doubt. Quality meant excellence: a thing was the best of its kind, and that was that. A Stradivarius violin had quality, a tinker's fiddle did not.

In the business world, however, the word has acquired an unrecognisably different meaning. As defined by the American statistician W Edwards Deming some 50 years ago, quality means consistency, *a lack of defects.*

As such, it has no connection with the first meaning at all. Take the ultimate expression of business quality these days, the so-called Six Sigma programme. This aims to reduce defects to the improbably small level of 3.4 parts per million.

But a defect means only a result lying outside a specified range. The product can still be rubbish, but it must be consistent rubbish. As someone puts it in the Spice Girls' film *Spice World*, "that was perfect, girls, without actually being any good".

Whatever happened to the first definition? Shortly before the first world war, the US journalist Negley Farson visited the industrial heart of Britain. What struck him, he wrote, was the almost arrogant display of quality. A brass column or banister would be solid brass. In America, someone would have devised a way of saving a few nickels by hollowing it out.

Wind the tape on 50 years or so, and a different picture emerges. Around 1970, legend has *it*, a group of investment analysts visited a world-famous UK engineering company.

They posed the usual questions of their trade: about margins, stock turns, balance sheet ratios and so forth.

The company's executives seemed honestly puzzled. They did not see the relevance of all this, they said. Their products were the finest in the world. Why all this nit-picking about numbers?

Rolls-Royce, the company in question, duly went bust in 1973. The trouble about old-style quality, it seemed, was that it pandered to the worst kind of supply-driven management.

The engineers would make the product to the highest possible standard and price it accordingly. If the public were Philistine enough to turn it down, so much the worse for the public.

Artists may produce masterpieces. The job of companies was to please the market

And so *old-style* quality got a bad name in business circles. It was all very well for artists to produce uncompromising masterpieces. The job of companies was to please the market.

Further damage was done by the rise of Japan. When Japanese cars, toys and television sets first reached the market in the US and UK, local manufacturers dismissed them as cheap trash.

Initially, so they were. But under the teaching of Edward Deming, the Japanese were learning about the second definition of quality.

It then began to dawn on western customers that while Japanese cars might be tin cans, they did not keep breaking down, as did both British and American cars.

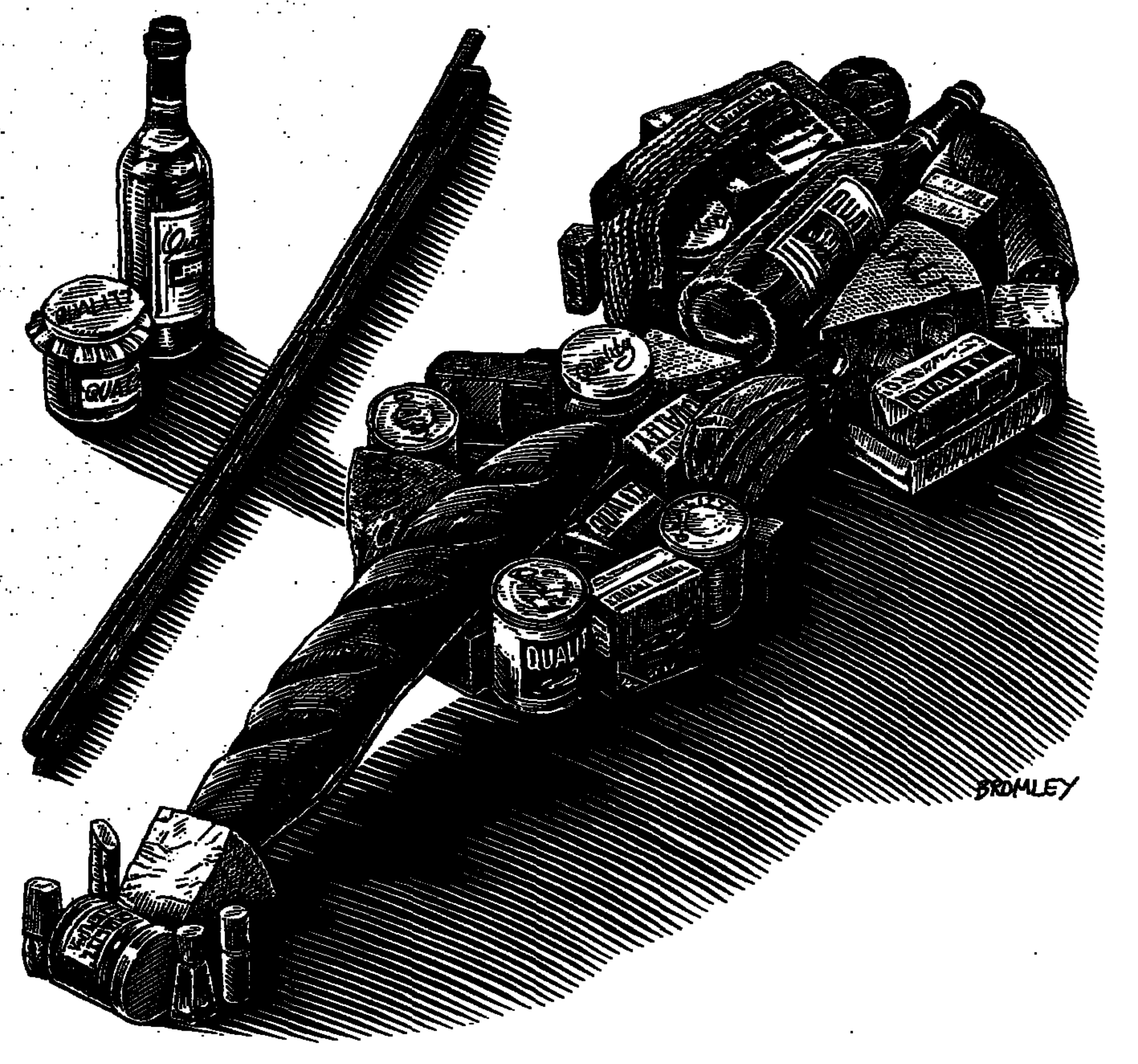
In time, of course, Japanese cars stopped being tin cans, and became stylish and comfortable vehicles instead. That is, they achieved old-style quality as well. As western manufacturers discovered to their cost, that was in some respects the easy bit. New-style quality was harder.

At this point, let us go back to M&S. We can imagine its executives getting restive by now. After all, they would not claim to sell the world's best suits or boeuf stroganoff: for that, you would go to Saville Row or a three-star restaurant.

But neither would they accept that their quality lies in mere consistency. One would expect a pair of M&S shoes or knickers to be the stated size, and to be efficiently cut and stitched. But one would also expect them to look and feel nice: to exhibit, in other words, a degree of quality in the older sense.

Thus quality acquires overtones of a third meaning: that of value for money. This is not an absolute concept. If I am selling a badly-pressed CD of unpopular songs from the 1960s, I do not confer quality on it merely by ensuring it is cheaper than any comparable CD. To qualify for this meaning, the article must be of a certain standard; and it should convey a sense, not of outright cheapness, but of being sold at a fair price.

Even so, this is slippery ground. The US fast foods group McDonald's, for instance, talks of its "high quality food".



But at 99c or 99p, its hamburgers are as close to absolute cheapness as any inhabitant of the developed world could reasonably desire.

They are also highly consistent. Eat a McDonald's anywhere around the world, and the result will be roughly similar – a logistical feat which is not be to be sneered at.

But as anyone who has eaten a really good American hamburger can attest, a McDonald's is also a long way from quality in the original sense. At best, it is a statistical Six Sigma job, with standard fries on the side.

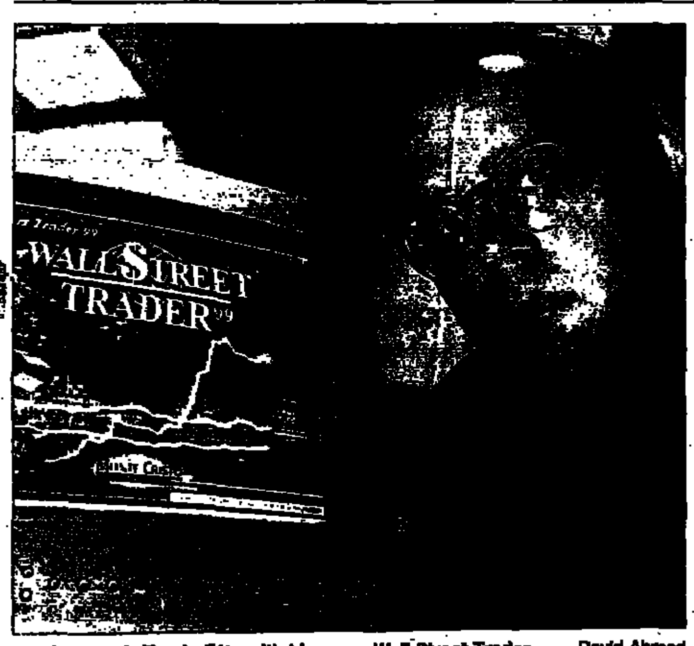
McDonald's, like M&S, has had its ups and downs in the past year or two. Perhaps what is needed here is a slightly different view of quality: one which aims at consistency, but at the same time tries to achieve *an* old-fashioned type of excellence.

When Negley Farson was in Britain all those years ago, he worked briefly as a salesman for a Manchester engineering company which claimed to make the best chain in the world. When he received an inquiry from a prospective US customer, he instructed the works – in the usual American way – to make up a special sample.

The boss promptly appeared in *Mr Farson's office*, "half out of his mind with rage", and banged the offending sample on the desk. "Every foot of my chain", he shouted, "is just as good as every other foot".

Doubtless the company in question went bust in its turn. *But Mr Farson's boss was* ahead of his time. Find out what people want and provide it consistently: but at the same time, make it the best you can.

It sounds a tall order. But in today's markets, customers are in charge. And why should they accept any less?



Sharing the thrills: de Féty with his game Wall Street Trader — David Ahmed

TECHNOLOGY COMPUTER GAMES

Dealing a share of reality

Peter John *on a PC-based stock market simulator game that combines genuine scenarios and bolted-on video clips*

Buy... sell... hold... ..click. Real financial markets may be scary enough, but virtual markets can be even more frightening.

Jean Marc de Féty, a Frenchman and former stock broker, has used his five years experience with Paribas and CSFB to meld global financial markets into *Wall Street Trader*, which is claimed to be the world's first PC-based stock market simulator.

With ex-management consultant Jean-Christophe Marquis, Mr de Féty has taken a range of genuine market scenarios and bolted on the kind of video clips that one would expect to find on Tomb Raider.

Their company – Monte Cristo Multimedia – has analysed 55 of the world's biggest stocks, as well as the impact of the G7 currencies, the oil market and the price of gold. Finally, it has factored in the effect of 400 market-moving stories from the past few years.

There are news stories from a pink paper called The Financial Drive as well as tips from distinctly shady "insiders".

"The public does not want to read a heavy book of mathematical formulas," says Mr de Féty. "Our main ambition is not only to let people have entertainment but also make people realise that inflation has an influence on interest rates, which have an influence on employment, which has an influence on growth, which has an influence on policy etcetera."

The formula appears to be working. The game has achieved break-even sales of 50,000 on the continent and has just launched in the UK. It has also received the seal of approval from the French Ministry of Education.

Nick Morgan, 14-year-old son of an FT stock market specialist, points out that the game is not as complicated as real life; but neither can you lose millions of real pounds.

With the prospect of further heavy restructuring in the real City next year, many brokers must be wishing they too could spend their time in a virtual world, hobnobbing with characters such as Lord Fleming, the "billionaire and renowned investment wizard".

Mailboxing clever

IT COMMUNICATIONS

Mailbox delivers 24 hours a day

The days of the computer modem may be numbered with the advent of the Tixi-Mail Box, a new communication device which automatically sends and receives messages whether the computer is switched on or not.

Effectively an electronic mailbox for use in a home office or *networked business, the unit can* send and receive messages 24 hours a day. It is claimed to be the first device which can operate independently of the internet, ensuring high levels of protection for networks, PCs and individual messages.

Unlike standard modems, the product will store fax and e-mail messages before it sends or transfers them, putting a barrier between the PC and the telephone network. Once up and running, the mailbox automatically picks up the user's fax and e-mail messages and can also be set to send messages at any time in the future. Lights on the unit indicate when there are messages waiting.

With a base memory of 2MB, the mailbox will store up to 1,000 e-mails or around 100 fax pages at any one time. All information sent from the Tixi-Mail Box is compressed, helping to reduce running costs and increase communication speeds by up to 100 times those of conventional fax messages.

Tixi.Com, the German company which is behind the launch, says the mailbox will help cut costs and improve communications among all types of user. Typical candidates, according to the company, range from the home worker or small company running a local area network to larger, multi-site operations where there may be a need to communicate at all hours of the day and night.

www.tixi.com

Nick Cottam

MANAGEMENT TEAM-BUILDING

Fragging at the Cyber Café

Richard Donkin asks whether computer battle games are a valuable tool in developing modern business skills or just a way of letting off steam

The room had a red flag on one side and a blue flag on the other. Sitting at the computer screens with bottles of Rolling Rock lager placed strategically by their keyboards were young besuited men and a woman from Fleming Life, Fleming's pooled pension business.

Not that the on-screen characters they were manipulating with joysticks were going to need a pension. The average lifespan of their virtual warriors was probably no more than 20 seconds before they were blasted into bloody chunks by a colleague.

We were playing Quake II, a game that involves flat-headed, square-jawed hulks, carrying large weapons, blasting each other as they roam corridors and rooms. In this setting at the Shoot'n Surf Cyber Café in New Oxford Street, London, the computers were networked, allowing players to form teams and engage in battles with each other. Our solitary woman, Helen, was transformed on screen into a tall and lissome, mean-faced dominatrix with a pony tail.

We had *microphones and* headsets but the conversation did not amount to much more than the odd cheer at an opponent's demise. This is play in a moral vacuum, careless and carefree. *Can it make* any possible contribution to the way people do their daily jobs? Paul Flanagan, founder of Cybernetic Productions, the organisers of this corporate gaming event, believes so.

"We're trying to give people an entertaining time but we're also teaching them a lesson through osmosis; that they need to talk to each other," he says.

Mr Flanagan became attracted to the power of computer games in the workplace when he worked at J.P. Morgan and Citibank. Colleagues were arriving early and staying late to play them. In some dealing rooms the play was causing systems problems. Traders at SBC Warburg Dillon Read were warned once to stop playing a game called Doom because of the pressure it was placing on the computer system.

'We're trying to entertain people but we're also teaching them... they need to talk to each other'

Devotees of Quake II have developed a language that borrows partly from computer terminology and partly from the US military. Killing an opponent is called "fragging". This has echoes of the management practice of downsizing – in the US Marines, to "frag" means to kill one of your own people.

In our game everyone seemed to kill everyone else constantly. The successful tactic is to keep moving, firing from the hip – again, familiar in management.

But was anyone learning anything? Not at that stage, apart from the various moves and weapons capabilities. The learning is supposed to come later when players are divided into teams and given the objective of capturing their opponents' flag. This is when a leader emerges and everyone begins to work as a unit with a single aim.

"Out of the mayhem of explosions, machine gun fire, base assaults and individual heroism, the team which communicates best will dominate," says the Cybernetic Productions blurb. The implication is clear – no one talks to each other at work any more, so they can learn how to socialise again by sitting in front of television screens blasting each other to pieces.

The US Marines has used such games for training. But then its job really is to kill people. The main attraction for City traders seems to be corporate entertainment and out of hours bonding.

So is it worth it? If you enjoyed the paintball craze that swept the UK some years ago you might get something out of it. There is no fresh air but it is cheaper and close to the office. But then so are darts and dominoes.

Cybernetic Productions, tel 44 171 229 3618

Battle field: computer games may be a useful workplace teaching tool — David Ahmed

EURO PRICES

EQUITIES

Upbeat Daimler powers ahead

EUROPEAN OVERVIEW

By Jeffrey Brown

European equity markets moved higher yesterday as investors returned from the Christmas break in a positive mood. Although London was closed and trading levels elsewhere were seasonally thin, all the main indices gained ground.

The FTSE Eurotop 100 index finished the day with a gain of 14.63 to 2,734.38 while the more broadly based FTSE Eurotop 300 index ended at 1,186.57, a rise of 8.30.

There was an equally positive performance from the FTSE Ebloc 100 index, which tracks the shares of the largest companies from countries due to join the economic and monetary union next month. It improved 10.72 to 998.77.

Motors were in the thick of the action following upbeat comments by the management of German car giant DaimlerChrysler. Automobiles rose 3.55 per cent, largely on the back of a steep gain for DaimlerChrysler, which predicted profits would be significantly higher in 1999.

Other sectors to sparkle included diversified industries, which rose 2.13 per cent, and information technology, where the gains extended to 4.62 per cent. Gas distribution rose 2.45 per cent, buoyed mostly by a Spanish leader Gas Natural.

The telecommunications sector, up 0.81 per cent, managed to absorb a flurry of selling, notably among German telecoms stocks, which lost ground on competition concerns. Both France Telecom and Deutsche Telekom were weak.

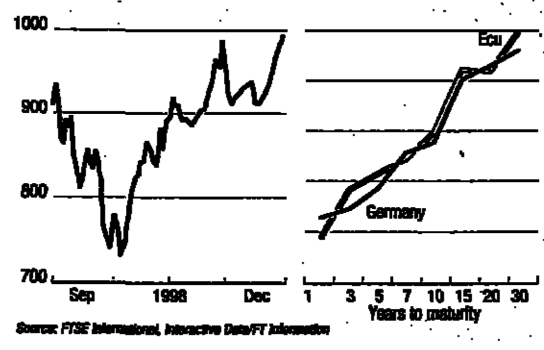
The day's broad movement will take comfort from one of the first broker publications – from Salomon Smith Barney – to take a specific approach to the euro-zone, the world's second largest equity market with 17 per cent of global capitalisation.

Salomon expects the new region, which contains almost a quarter of the world's leading 200 companies, to "get off to a flying start next year", partly through technical reasons associated with pent-up demand.

Yet the broker sees 9 per cent fundamental upside, and says strong demand could fuel much bigger gains. It picks financials and secular sectors like technology, media and drugs as the likely winners in 1999.

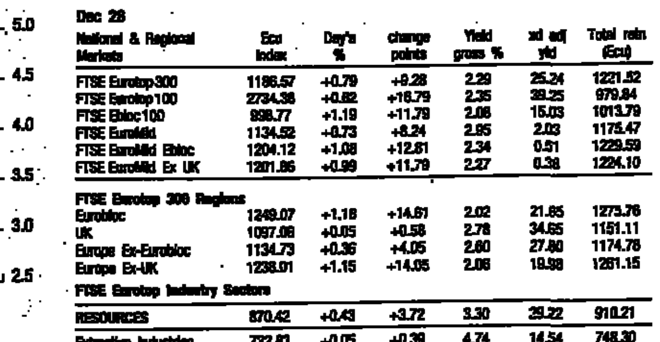
FTSE Ebloc 100

Index



Bond yield curve

Per cent (December 24 1998)



Source: FTSE International, Interactive Data/FT Information

FTSE Actuaries Share Indices — European series

Dec 28 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1186.57	+0.79	+9.28	2.29	25.24	1221.52
FTSE Eurotop 100	2734.38	+0.62	+16.79	2.35	38.25	979.84
FTSE Ebloc 100	998.77	+1.19	+11.79	2.06	15.03	1013.79
FTSE EuroMid	1134.52	+0.73	+8.24	2.95	2.03	1175.47
FTSE EuroMid Ebloc	1204.12	+1.08	+12.61	2.34	0.51	1229.59
FTSE EuroMid Ex UK	1201.86	+0.99	+11.79	2.27	0.38	1224.10

THREE MONTH EURO FUTURES (LIFFE)

THREE MONTH EURO OPTIONS (LIFFE)

FTSE EUROTOP 100 INDEX FUTURES (LIFFE)

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX)

OTHER INDICES

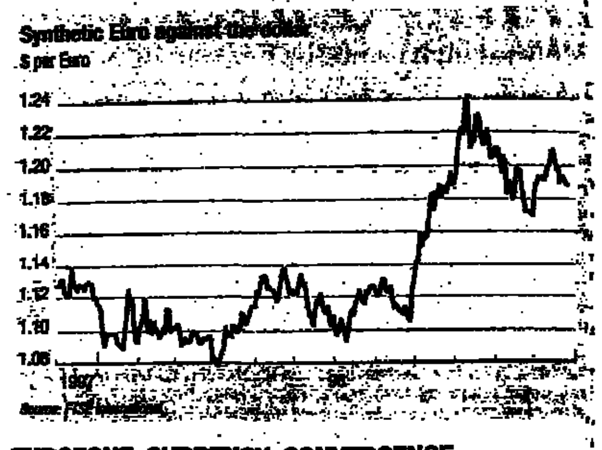
FTSE EUROTOP 300

CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Synthetic Euro against the dollar

$ per Euro



EUROZONE CURRENCY CONVERGENCE

BONDS

INTEREST RATE SWAPS

EUROZONE CORPORATE BONDS

GOVERNMENT BOND SPREADS vs ECU

Dec 28	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
Spain	–0.36	–0.13	+0.11	+0.09	+0.16	–0.04
"Outs"						
Denmark	+0.44	+0.41	+0.42	+0.22	–0.05	+0.49
Greece	+5.80	+3.85	+3.20	+2.89	+2.25	+1.85
Sweden	+0.21	+0.28	+0.33	+0.26	+0.17	–0.23
UK	+1.55	+0.82	+0.77	+0.45	–0.10	–0.68

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

BUSINESSES FOR SALE

LEGAL NOTICES

SCOTTISH MUTUAL ASSURANCE PLC

NOTICE IS HEREBY GIVEN that on 10 December 1998 the Court of Session pronounced an Order under Section 49 of, and Part I of Schedule 2C ("Schedule 2C") to, the Insurance Companies Act 1982:

(a) sanctioning a Scheme ("the Scheme") under which the whole of the the long term business of Pegasus Assurance Limited ("Pegasus") is transferred to Scottish Mutual Assurance plc ("Scottish Mutual") with effect from 00.01 hours on 1st January 1999 ("the Effective Time");

(b) transferring to Scottish Mutual the whole of the undertaking and of the property and liabilities of Pegasus with effect from the Effective Time, as provided for in the Scheme, such Order not to become effective in respect of any Residual Assets, Residual Liabilities and Residual Policies (as defined in the Scheme) until the relevant Subsequent Effective Time (as defined in the Scheme);

(c) for the continuation by or against Scottish Mutual of any legal proceedings pending by or against Pegasus at the Effective Time, except that in the case of any such legal proceedings relating to any Residual Asset, Residual Liability or Residual Policy the Order shall not become effective until the relevant Subsequent Effective Time;

(d) allowing Scottish Mutual to apply to the Court in terms of paragraph 5(1)(e) of Schedule 2C for any Orders in relation to such incidental, consequential and supplementary matters as are necessary to secure that the Scheme shall be fully and effectively carried out; and

(e) appointing Scottish Mutual in terms of paragraph 5 (5) of Schedule 2C to deposit two certified copies of the Order pronounced with HM Treasury Insurance Directorate.

Any policyholder of Pegasus who is entitled to exercise any right to cancel his/her policy may do so within three months of the date of this advertisement.

Such right of cancellation extends to any policyholder who was habitually resident in Belgium or France at the time his/her policy was taken out. Such right of cancellation may be exercised by delivering notification of the right of cancellation to:-

Pegasus Assurance Limited,

Abbey National House, 291 St Vincent Street, Glasgow G2 5HN — or — Abbey House, Baker Street, London NW1 6XH

In France: c/o PricewaterhouseCoopers, 32 Rue Guersant, 75017 Paris, France

In Belgium: c/o PricewaterhouseCoopers, Marcel Thiry Court, Avenue Marcel Thiry 216, B-1200 Brussels, Belgium

Any additional cancellation rights required by the supervisory authorities in Belgium and France, or Gibraltar, Germany, Ireland, Portugal, Spain and Sweden, in which jurisdictions certain policyholders of Pegasus were habitually resident at the time their policies were taken out, will be notified to relevant policyholders in accordance with the requirements of those jurisdictions. In France, policyholders have the option of cancelling their contracts within one month of publication in the Official Journal. In Belgium, policyholders have the option of cancelling their contracts within 90 days following publication in the Official Journal.

Copies of the Order sanctioning the Scheme and of any other Orders made under paragraph (d) above are available on application to the agents mentioned below.

McGrigor Donald
Solicitors
Erskine House
68-73 Queen Street
Edinburgh EH2 4NF
(Ref: JN/RAH)

CURRENCIES & MONEY

Dollar drifts down

By Robert Chote, Economics Editor

The US dollar dropped back from the overnight highs it reached in Tokyo yesterday, with a holiday in the UK and the impending launch of Europe's single currency contributing to a lifeless day's trading.

Commercial demand pushed the dollar above Y117 in Tokyo, with analysts attributing some of the buying to the setting up of fresh investment trusts. Japanese institutional investors were also said to be buyers.

The dollar reached a high of around Y117.15, with traders wary of testing the Y117.30 high reached immediately after the US and UK launched their air strikes against Iraq. It had been trading at around Y116.17 in late Tokyo trading on Friday, with other big markets shut for Christmas.

With London on holiday, the dollar's hopes of remaining above Y117 rested on traders in New York. They were dashed. Despite a relative firm start, the US currency drifted down to Y115.7 by closing time in London.

The dollar's fall against the yen was also reflected against the D-Mark, with the US currency ending London trading hours at DM1.679.

Not even "Mr Yen", otherwise known as Eisuke Sakakibara, Japan's vice finance minister for international affairs, could inject life into the moribund market.

In an interview with Le Monde, he predicted the euro would be a strong currency and that maintaining stability between it, the yen and the dollar would be a key issue for 1999. He said he wished to discuss ways to stabilise the relationship between the euro and the yen with the Europeans.

Dealers' reluctance to take significant positions ahead of the January 4 trading start for the euro contributed to the lack of activity. They are loath to trade in Europe's so-called "legacy" currencies ahead of the launch date, fearing possible technical problems.

POUND SPOT FORWARD AGAINST THE POUND

Dec 28		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	19.7872	-0.0011	749 - 994	19.8580	19.7724	19.7364	3.1	19.6517	2.7	19.3884	2.0	103.4
Belgium	(BFr)	58.0590	-0.0205	333 - 847	58.2250	57.8200	57.907	3.1	57.6459	2.8	56.7869	2.2	103.4
Denmark	(DKr)	10.7018	-0.0004	952 - 083	10.7388	10.6955	10.6812	2.3	10.6505	1.9	10.5447	1.5	107.3
Finland	(FM)	8.5496	-0.0019	430 - 565	8.5790	8.5430	8.5264	3.3	8.4888	2.9	8.3658	2.2	82.8
France	(FFr)	9.4325	+0.0095	272 - 378	9.4858	9.4272	9.4071	3.2	9.3637	2.9	9.2221	2.2	108.9
Germany	(DM)	2.8125	-0.0003	108 - 142	2.8241	2.8097	2.805	3.2	2.7921	2.9	2.7484	2.2	104.9
Greece	(Dr)	472.429	+1.056	120 - 737	473.733	470.872	474.439	-5.1	478.25	-4.9	493.861	-4.5	62.2
Ireland	(I£)	1.1327	-0.0080	310 - 332	1.1350	1.1310	1.1292	3.1	1.124	2.9	1.1076	2.2	95.2
Italy	(L)	2785.44	+0.15	496 - 652	2795.81	2782.95	2777.51	3.4	2764.84	3.0	2723.91	2.2	76.2
Luxembourg	(LFr)	58.0590	-0.0305	333 - 847	58.2250	57.8290	57.907	3.1	57.6459	2.8	58.7889	2.2	103.4
Netherlands	(Fl)	3.1690	-0.001	672 - 707	3.1819	3.1669	3.1604	3.3	3.1459	2.9	3.0979	2.2	103.0
Norway	(NKr)	12.8067	+0.0433	023 - 111	12.8399	12.7927	12.8305	-2.2	12.8699	-2.0	12.9838	-1.2	91.8
Portugal	(Es)	288.452	+0.055	282 - 622	288.928	288.294	287.71	3.1	286.462	2.8	282.14	2.2	92.8
Spain	(Pta)	239.439	+0.057	284 - 594	240.210	239.200	238.823	3.1	237.764	2.8	234.168	2.2	77.4
Sweden	(SKr)	13.6295	+0.1621	188 - 417	13.6417	13.4722	13.5942	3.1	13.5394	2.6	13.3745	1.9	79.6
Switzerland	(SFr)	2.2993	+0.0017	977 - 008	2.3043	2.2969	2.2898	5.0	2.2731	4.6	2.2142	3.7	108.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	100.8
Ecu	-	1.4320	-0.0008	313 - 327	1.4383	1.4312	1.4281	3.3	1.4214	3.0	1.398	2.3	-
SDR†	-	1.194000	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6748	+0.0022	743 - 764	1.6758	1.6701	-	-	-	-	-	-	-
Brazil	(R$)	2.0234	+0.0021	227 - 241	2.0248	2.0183	-	-	-	-	-	-	-
Canada	(C$)	2.5961	+0.0038	985 - 997	2.5997	2.5907	2.5952	1.4	2.5907	1.1	2.5836	0.6	75.2
Mexico	(New Peso)	16.4896	-0.0695	563 - 829	16.5637	16.4563	16.8848	-30.3	17.5402	-26.8	20.6681	-25.5	-
USA	($)	1.6751	+0.0011	746 - 756	1.6770	1.6715	1.674	0.8	1.6714	0.9	1.6695	0.3	105.2
Pacific/Middle East/Africa													
Australia	(A$)	2.7612	+0.0169	588 - 636	2.7636	2.7409	2.7573	1.7	2.7517	1.4	2.7416	0.7	78.5
Hong Kong	(HK$)	12.9752	+0.0083	709 - 795	12.9892	12.9483	12.9685	0.8	12.9578	0.5	13.14	-1.3	-
India	(Rs)	71.2169	+0.0175	872 - 465	71.3140	71.0970	71.4753	-4.4	72.1286	-5.1	76.8038	-7.8	-
Indonesia	(Rupiah)	13317.87	+176.1	934 - 480	13404.80	12968.10	13701.18	-34.6	14240.59	-27.7	16275.81	-22.2	-
Israel	(Shk)	6.9921	-0.0147	839 - 003	7.0114	6.9839	-	-	-	-	-	-	-
Japan	(Y)	193.843	-0.517	735 - 951	195.951	193.735	192.808	5.4	190.978	5.9	184.228	5.0	130.9
Malaysia	(M$)‡	6.3654	+0.0040	931 - 985	6.3718	6.3520	-	-	-	-	-	-	-
New Zealand	(NZ$)	3.2214	+0.0206	173 - 254	3.2254	3.2027	3.2163	1.9	3.2068	1.4	3.2121	0.3	89.1
Philippines	(Peso)	65.5803	+0.2942	094 - 511	65.8511	65.4030	66.1759	-10.9	67.1334	-9.5	71.6165	-9.2	-
Saudi Arabia	(SR)	6.2833	+0.0041	806 - 860	6.2868	6.2698	6.2878	-0.9	6.2977	-0.9	6.353	-1.1	-
Singapore	(S$)	2.7782	+0.0077	756 - 807	2.7822	2.7730	2.7688	4.9	2.7504	4.0	2.713	2.3	-
South Africa	(R)	9.8495	-0.0525	289 - 699	9.9119	9.8299	9.9374	-10.7	10.1044	-10.3	10.9507	-11.2	-
South Korea	(Won)	2025.62	+4.6	325 - 798	2027.98	2022.18	-	-	-	-	-	-	-
Taiwan	(T$)	54.0987	+0.0587	209 - 565	54.1017	53.9252	53.9431	2.1	53.9126	0.9	54.3154	-0.5	-
Thailand	(Bt)	61.7694	+0.9194	253 - 134	61.9134	60.7980	61.7778	-0.2	61.8205	-0.3	63.3159	-2.6	-

† Rates for Dec 23. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the internet at http://www.FT.com.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 28		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	11.8126	-0.0084	088 - 163	11.8480	11.8050	11.7904	2.3	11.7574	1.9	11.6136	1.7	103.3
Belgium	(BFr)	34.6600	-0.035	550 - 650	34.7200	34.4310	34.593	2.3	34.4885	2.0	34.015	1.9	103.5
Denmark	(DKr)	6.3887	-0.0045	867 - 907	6.4050	6.3873	6.3807	1.5	6.372	1.0	6.3182	1.1	105.6
Finland	(FM)	5.1040	-0.0045	015 - 065	5.1170	5.1038	5.0936	2.5	5.0785	2.0	5.011	1.8	82.2
France	(FFr)	5.6310	+0.002	295 - 325	5.6452	5.6295	5.6197	2.4	5.6021	2.1	5.524	1.9	106.5
Germany	(DM)	1.6790	-0.0013	785 - 795	1.6841	1.6783	1.6757	2.4	1.6704	2.0	1.6469	1.9	104.6
Greece	(Dr)	282.030	+0.445	930 - 130	283.070	280.930	283.425	-5.9	286.13	-5.8	295.83	-4.9	61.7
Ireland	(I£)	1.4797	+0.0014	787 - 807	1.4807	1.4775	1.4826	-2.3	1.4871	-2.0	1.5073	-1.9	-
Italy	(L)	1662.85	-1	270 - 300	1667.80	1662.55	1659.25	2.6	1654.15	2.1	1631.6	1.9	76.0
Luxembourg	(LFr)	34.6600	-0.035	550 - 650	34.7200	34.4310	34.593	2.3	34.4885	2.0	34.015	1.9	103.5
Netherlands	(Fl)	1.8918	-0.0019	913 - 923	1.8979	1.8909	1.888	2.4	1.8821	2.1	1.8558	1.9	102.8
Norway	(NKr)	7.6454	+0.0209	450 - 457	7.6740	7.6260	7.6649	-3.1	7.6999	-2.9	7.7654	-1.6	89.6
Portugal	(Es)	172.200	-0.08	150 - 250	172.510	172.160	171.875	2.3	171.385	1.9	169	1.9	93.1
Spain	(Pta)	142.940	-0.06	890 - 990	143.260	142.850	142.67	2.3	142.25	1.9	140.285	1.9	77.2
Sweden	(SKr)	8.1364	+0.0815	314 - 414	8.1414	8.0443	8.121	2.3	8.1001	1.8	8.0109	1.5	79.6
Switzerland	(SFr)	1.3726	+0.0001	721 - 731	1.3761	1.3711	1.3679	4.2	1.3588	3.7	1.3262	3.4	108.8
UK	(£)	1.6751	+0.0011	746 - 756	1.6770	1.6715	1.674	0.8	1.6714	0.9	1.6695	0.3	100.6
Ecu	-	1.1695	+0.001	695 - 700	1.1700	1.1675	1.1723	-2.6	1.176	-2.1	1.1933	-2.0	-
SDR†	-	0.71280	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0007	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.2080	+0.0005	079 - 080	1.2080	1.2077	-	-	-	-	-	-	-
Canada	(C$)	1.5510	+0.0012	505 - 515	1.5515	1.5490	1.5503	0.5	1.5499	0.3	1.5475	0.2	74.7
Mexico	(New Peso)	9.8320	-0.048	270 - 370	9.8370	9.8270	10.087	-31.1	10.4945	-27.0	12.382	-25.9	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	108.6
Pacific/Middle East/Africa													
Australia	(A$)	1.6484	+0.0091	474 - 493	1.6502	1.6380	1.6476	0.6	1.645	0.8	1.6343	0.9	76.7
Hong Kong	(HK$)	7.7460	-	457 - 462	7.7464	7.7455	7.7462	0.0	7.7525	-0.3	7.871	-1.6	-
India	(Rs)	42.5150	-0.0175	100 - 200	42.5250	42.5100	42.6988	-5.2	43.1538	-6.0	46.0075	-8.2	-
Indonesia	(Rupiah)	7950.00	+100	900 - 000	8000.00	7750.00	8185	-35.5	8520	-28.7	9750	-22.6	-
Israel	(Shk)	4.1742	-0.0115	705 - 778	4.1869	4.1705	-	-	-	-	-	-	-
Japan	(Y)	115.720	-0.395	690 - 750	117.110	115.680	115.185	5.5	114.26	5.0	110.35	4.6	132.2
Malaysia	(M$)‡	3.8000	-	300 - 300	3.8000	3.8000	-	-	-	-	-	-	-
New Zealand	(NZ$)	1.9231	+0.0111	212 - 249	1.9249	1.9146	1.9262	-1.9	1.9316	-1.8	1.9504	-1.4	-
Philippines	(Peso)	39.1500	+0.15	000 - 000	39.3000	39.0000	39.5325	-11.7	40.165	-10.4	42.9	-9.6	-
Saudi Arabia	(SR)	3.7510	-	505 - 515	3.7515	3.7505	3.7563	-1.7	3.7678	-1.8	3.8055	-1.5	-
Singapore	(S$)	1.6585	+0.0035	575 - 595	1.6612	1.6570	1.6528	4.1	1.6455	3.1	1.625	2.0	-
South Africa	(R)	5.8800	-0.0353	700 - 900	5.9000	5.8700	5.9365	-11.5	6.0455	-11.3	6.56	-11.6	-
South Korea	(Won)	1209.25	+7.85	820 - 030	1212.00	1208.20	-	-	-	-	-	-	-
Taiwan	(T$)	32.2600	+0.0145	580 - 610	32.2610	32.2590	32.225	1.3	32.255	0.1	32.535	-0.9	-
Thailand	(Bt)	36.8750	+0.525	000 - 500	36.9500	36.3500	36.905	-1.0	36.985	-1.2	37.925	-2.8	-

† SDR rate per $ for Dec 23. ‡ Official rate set by Malaysian government. The WM/Reuters rate for the valuation of capital assets is 5.43 MYR/USD, a discount of 30% on the official rate. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 23: Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS 4pm CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the internet at http://www.FT.com

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 28		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.43	16.25	4.844	1.950	4798	5.458	22.06	496.8	412.4	23.47	3.960	1.722	4.475	2.885	333.9	2.466
Denmark	(DKr)	54.25	10	8.814	2.628	1.058	2603	2.961	11.97	269.5	223.7	12.74	2.148	0.934	2.428	1.565	181.1	1.338
France	(FFr)	61.55	11.35	10	2.982	1.200	2953	3.360	13.58	305.8	253.8	14.45	2.438	1.060	2.754	1.776	205.5	1.518
Germany	(DM)	20.64	3.805	3.354	1	0.403	990.4	1.127	4.554	102.6	85.13	4.846	0.818	0.356	0.924	0.596	68.92	0.509
Ireland	(I£)	51.29	9.453	8.332	2.484	1	2461	2.799	11.31	254.8	211.5	12.04	2.031	0.883	2.295	1.480	171.2	1.265
Italy	(L)	2.084	0.384	0.339	0.101	0.041	100	0.114	0.460	10.36	8.596	0.489	0.083	0.036	0.093	0.060	6.959	0.051
Netherlands	(Fl)	18.32	3.377	2.977	0.888	0.357	879.0	1	4.041	91.02	75.56	4.301	0.726	0.316	0.820	0.529	61.17	0.452
Norway	(NKr)	45.33	8.356	7.365	2.196	0.884	2175	2.474	10	225.2	187.0	10.64	1.795	0.781	2.029	1.308	151.4	1.118
Portugal	(Es)	20.13	3.710	3.270	0.975	0.392	965.7	1.099	4.440	100	83.01	4.725	0.797	0.347	0.901	0.581	67.20	0.496
Spain	(Pta)	24.25	4.470	3.939	1.175	0.473	1163	1.324	5.349	120.5	100	5.692	0.960	0.418	1.085	0.700	80.96	0.598
Sweden	(SKr)	42.60	7.852	6.921	2.064	0.831	2044	2.325	9.397	211.6	175.7	10	1.687	0.734	1.906	1.229	142.2	1.051
Switzerland	(SFr)	25.25	4.654	4.102	1.223	0.492	1211	1.378	5.570	125.5	104.1	5.928	1	0.435	1.130	0.729	84.31	0.623
UK	(£)	58.06	10.70	9.432	2.813	1.132	2785	3.169	12.81	288.5	239.4	13.63	2.299	1	2.598	1.675	193.8	1.432
Canada	(C$)	22.35	4.119	3.631	1.083	0.436	1072	1.220	4.929	111.0	92.16	5.246	0.885	0.385	1	0.645	74.61	0.551
USA	($)	34.66	6.389	5.631	1.679	0.676	1663	1.892	7.645	172.2	142.9	8.136	1.373	0.597	1.551	1	115.7	0.855
Japan	(Y)	29.95	5.521	4.866	1.451	0.584	1437	1.635	6.607	148.8	123.5	7.031	1.186	0.516	1.340	0.864	100	0.739
Ecu	-	40.55	7.474	6.587	1.964	0.791	1945	2.213	8.944	201.4	167.2	9.518	1.606	0.698	1.814	1.170	135.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est.vol	Open int.
Mar	0.5989	0.5978	+0.0011	0.6006	0.5965	7,077	56,866
Jun	0.6002	0.6002	+0.0008	0.6002	0.6000	1	1,222
Sep	-	-	-	-	-	16	138

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est.vol	Open int.
Mar	0.7399	0.7342	+0.0023	0.7407	0.7316	6,125	28,276
Jun	0.7400	0.7380	-0.0001	0.7400	0.7380	20	386
Sep	-	0.7440	-0.0001	-	0.7440	20	320

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est.vol	Open int.
Mar	0.8716	0.8703	-0.0017	0.8789	0.8675	5,536	59,857
Jun	-	0.8810	-	-	-	4	3,996
Sep	-	0.8900	-	-	-	50	1,347

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est.vol	Open int.
Mar	1.6746	1.6702	+0.0002	1.6738	1.6690	2,177	42,748
Jun	-	1.6680	+0.0006	-	1.6680	6	1,207
Sep	-	-	-	-	-	260	230

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
1.670	1.51	2.29	2.57	1.30	2.23	2.67
1.680	1.06	1.88	2.22	1.80	2.68	3.18
1.690	0.77	1.40	1.82	2.45	3.29	-

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Jan	PUTS Feb	PUTS Mar
0.590	0.93	1.26	1.47	0.31	0.65	0.84
0.595	0.62	0.98	1.19	0.58	0.87	1.06
0.600	0.41	0.71	0.96	0.84	1.14	1.30

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

BENCHMARK GOVERNMENT BONDS

Dec 28	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	107.9922	4.69	-	+0.17	+0.01	-0.72
	08/08	8.750	128.4949	4.99	-	+0.19	-0.14	-0.93
Austria	07/00	5.875	103.7378	3.34	-	+0.07	-0.12	-1.02
	01/08	5.000	108.8363	4.08	-	+0.05	-0.15	-1.22
Belgium	01/00	4.000	100.8300	3.19	-	+0.07	-0.14	-1.09
	03/08	5.750	112.4000	4.11	-	+0.05	-0.12	-1.23
Canada	12/00	5.000	100.2109	4.88	-	+0.18	-	-0.91
	06/08	6.000	107.0809	5.04	-	+0.17	-0.05	-0.60
Denmark	11/00	9.000	109.1600	3.82	-	-	-0.12	-0.51
	11/07	7.000	119.9200	4.26	-	+0.01	-0.18	-1.31
Finland	01/99	11.000	100.3118	2.89	-	-0.01	-0.20	-1.35
	04/08	6.000	114.6943	4.07	-	+0.03	-0.15	-1.27
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

London closing. * New York mid-day. Yields: Local market standard. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

WORLD INTEREST RATES

MONEY RATES

Dec 24	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3⅜	3½	3⅜	3⅜	3½	6.00	2.75	-
France	3¼	3⅜	3⅜	3¼	3⅜	4.60	-	3.00
Germany	3	3¼	3¼	3⅛	3¼	4.50	2.50	3.00
Ireland	3⅜	3⅜	3¼	3⅜	3⅜	-	-	3.00
Italy	2⅞	3⅜	3⅜	3⅜	3¼	4.50	3.50	3.11
Netherlands	2⅞	3⅜	3¼	3⅜	3½	-	2.75	3.00
Switzerland	⅞	1⅜	1⅞	1½	1⅜	-	1.00	-
US	4⅞	5½	5⅜	5⅛	5	-	4.50	-
Japan	⅛	¼	⅛	⅛	¼	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5½	5¼	5⅛	5⅛	-	-	-
US Dollar CDs	-	4.90	4.77	4.76	4.72	-	-	-
ECU Linked Ds	-	3¼	3⅞	3⅜	3¼	-	-	-
SDR Linked Ds	-	3⅜	3¼	3⅜	3⅛	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 24	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅝ - 3⅛	3¼ - 3⅛	3½ - 3⅜	3⅜ - 3⅛	3⅛ - 3⅛	3⅜ - 3⅛
Danish Krone	4⅞ - 4⅛	4⅝ - 4⅛	4¼ - 4	4¼ - 4	4⅛ - 4	4⅛ - 4
German Mark	2⅞ - 2⅝	3⅛ - 2⅞	3⅜ - 3⅛	3¼ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
Dutch Guilder	2¾ - 2½	3¼ - 3⅛	3⅜ - 3⅛	3⅜ - 3⅛	3⅜ - 3½	3⅛ - 3⅛
French Franc	3⅛ - 3⅛	3⅜ - 3⅛	3⅜ - 3⅛	3¼ - 3⅛	3⅛ - 3⅛	3⅛ - 3⅛
Portuguese Esc.	3⅛ - 3⅛	3⅜ - 3⅛	3¼ - 3⅜	3⅜ - 3⅜	3⅛ - 3⅜	3⅜ - 3⅛
Spanish Peseta	2⅞ - 2½	3¼ - 3⅜	3⅜ - 3⅛	3⅛ - 3⅛	3¼ - 3⅛	3⅛ - 3⅛
Sterling	7 - 6¾	7⅛ - 6⅞	6⅜ - 6⅛	6⅜ - 6⅛	6⅛ - 5⅞	5⅞ - 5⅝
Swiss Franc	¾ - ½	3⅛ - 2⅞	1⅝ - 1⅜	1⅝ - 1⅜	1⅝ - 1⅜	1⅜ - 1⅛
Canadian Dollar	5⅛ - 5	5⅛ - 5⅛	5⅛ - 5⅛	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞
US Dollar	4⅝ - 4⅞	7⅛ - 7⅛	5¾ - 5½	5⅛ - 5⅛	5⅛ - 5	5⅛ - 5⅛
Italian Lira	2⅞ - 2¾	3⅜ - 3⅛	3⅛ - 3⅛	3¼ - 3⅛	3¼ - 3⅛	3⅛ - 3⅛
Japanese Yen	⅛ - ⅛	⅛ - ⅛	⅛ - ⅛	½ - ⅛	⅛ - ⅛	⅛ - ⅛
Asian $Sing	½ - ½	1¼ - 1	1¾ - 1¼	2⅛ - 1¾	2⅛ - 2	2⅛ - 2⅛

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ POUND IN NEW YORK

Dec 28	—Latest—	— Prev. close —
£ spot	1.6795	1.6725
1 mth	1.6783	1.6713
3 mth	1.6760	1.6689
1 yr	1.6738	1.6669

■ OTHER CURRENCIES

Dec 28	£	$
Czech Rp	50.2748 - 50.3769	30.0220 - 30.0650
Hungary	365.348 - 365.817	218.170 - 218.320
Iran	[illegible]	3000.00 - 3000.00
Kuwait	0.5054 - 0.5059	0.3018 - 0.3019
Peru	5.2532 - 5.2614	3.1370 - 3.1400
Poland	5.8410 - 5.8529	3.4880 - 3.4930
Russia	35.4178 - 35.9416	21.1500 - 21.4500
U.A.E.	6.1501 - 6.1545	3.6726 - 3.6730

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.00	94.97	+0.01	95.01	94.95	34,975	503,421
Jun	94.99	94.98	+0.02	95.04	94.93	43,097	405,617
Sep	94.99	95.00	+0.03	95.00	94.98	36,785	361,864

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	95.62	95.62	-0.01	95.70	95.61	413	1,799
Jun	95.70	95.70	+0.02	95.70	95.68	14	76

All Open interest figs. are for previous day

BANK RETURN

The Bank Return table can be found on page 24 in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Dec 24	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	8 - 3	5¾ - 5	6⅛ - 6⅛	6¼ - 6¼	6⅛ - 5⅞	5⅞ - 5⅝
Sterling CDs	-	-	6⅛ - 6¼	6⅛ - 6⅛	5⅞ - 5⅞	5⅝ - 5½
Treasury Bills	-	-	6¼ - 6	6 - 5¾	-	-
Bank Bills	-	-	6¼ - 6	6 - 5⅞	5⅞ - 5¾	-
Local authority deps.	6¼ - 6¼	6¼ - 6¼	6⅜ - 6⅛	6⅛ - 6¼	5⅞ - 5⅞	5¾ - 5½
Discount Market deps	5¼ - 5¼	5⅛ - 6⅛	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from Dec 10, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc.
Ave. tender rate of discount on Dec 24, 5.5913pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 30, 1998. Agreed rate for period Dec 26, 1998 to Jan 25, 1999, Scheme III 6.24pc. Reference rate for period Oct 31, 1998 to Nov 30, 1998, Schemes IV & V 6.988pc. Finance House Base Rate 7½pc for Dec 1998.

BANK OF ENGLAND TREASURY BILL TENDER

	Dec 24	Dec 18		Dec 24	Dec 18
Bills on offer	£100m	£100m	Top accepted rate	5.5913%	5.6758%
Total of applications	£399m	£474m	Ave. rate of discount	5.5913%	5.6705%
Total allocated	£100m	£100m	Average yield	5.6702%	5.7518%
Min. accepted bid	£98.605	£98.585	Offer at next tender	£100m	£100m
Allotment at min. level	100%	35%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Exeter Trust Limited	7.25	●Singer & Friedlander	6.25
Allied Irish Bank (GB)	6.25	Financial & Gen Bank	8.00	Smith & Williamson	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	Sun Bank	6.25
Banco Bilbao Vizcaya	6.25	Habib Bank AG Zurich	6.25	TSB	6.25
Bank of Cyprus	6.25	Heritable & Gen Inv Bk	6.25	United Bank of Kuwait	6.25
Bank of Ireland	6.25	C. Hoare & Co	6.25	Unity Trust Bank Plc	6.25
Bank of India	6.75	●SG Hambros Bank & Trust	6.25	Whiteaway Laidlaw	6.25
Bank of Scotland	6.25	Hongkong & Shanghai	6.25	Yorkshire Bank	6.25
Barclays Bank	6.25	Investec Bank (UK) Ltd	6.25		
Brit Bk of Mid East	6.25	Julian Hodge Bank	6.25		
●Brown Shipley & Co Ltd	6.25	●Leopold Joseph & Sons	6.25		
Citibank NA	6.25	Lloyds Bank	6.25		
Clydesdale Bank	6.25	Midland Bank	6.25		
The Co-operative Bank	6.25	NatWestminster	6.25		
Coutts & Co	6.25	●Rea Brothers	6.75		
Cyprus Popular Bank	6.75	Royal Bk of Scotland	6.25		
Duncan Lawrie	6.25	Scottish Widows Bank	6.75		

● Members of London Investment Banking Association

UK GILTS PRICES

Notes	Price £	Wk % +/-	Amt £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)						
Treas 8½pc 1999	100.1546	-1	1,900	Jy15 Ja5	6.7	1347
Treas Flg Rate 1999	100.0445	-	5,700	[illegible]	2.12	4945
Exch 12¼pc 1999	101.5418	-2	3,050	Se26 Mr26	17.9	1264
Treas 10½pc 1999	101.9854	-1	1,252	Nv19 My19	18.11	1268
Treas 6pc 1999	100.3558	0.1	6,950	Fe10 Au10	3.8	3635
Conv 10¼pc 1999	104.3305	-	1,798	My22 Nv22	12.11	1242
Conv 9½pc 2005	126.9868	-1	4,84[illegible]	[illegible]	[illegible]	[illegible]
Exch 10½pc 2005	133.9318	-1	[illegible]	[illegible]	[illegible]	[illegible]
Treas 12½pc 2003-5	134.5616	-1	2,20[illegible]	[illegible]	[illegible]	[illegible]
Treas 8½pc 2005	123.5912	-1	10,37[illegible]	[illegible]	[illegible]	[illegible]
Conv 9¾pc 2006	134.1871	-1	[illegible]	[illegible]	[illegible]	[illegible]
Treas 7¾pc 2006	120.4725	-1	4,00[illegible]	[illegible]	[illegible]	[illegible]
Treas 8pc 2002-6	111.0415	-	2,05[illegible]	[illegible]	[illegible]	[illegible]
Treas 7½pc 2006	119.5727	-1	11,76[illegible]	[illegible]	[illegible]	[illegible]
Treas 11¾pc 2003-7	125.5681	-	3,15[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Price £	Wk % +/-	Amt £m	Interest due	Last xd	City line
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 28 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 28 / Frs.)

[illegible]

CZECH REP (Dec 23 / Koruna)

[illegible]

DENMARK (Dec 28 / Kr)

[illegible]

FINLAND (Dec 28 / Mks)

[illegible]

FRANCE (Dec 28 / Frs.)

[illegible]

GERMANY (Dec 28 / Dm.)

[illegible]

GREECE (Dec 28 / Drachma)

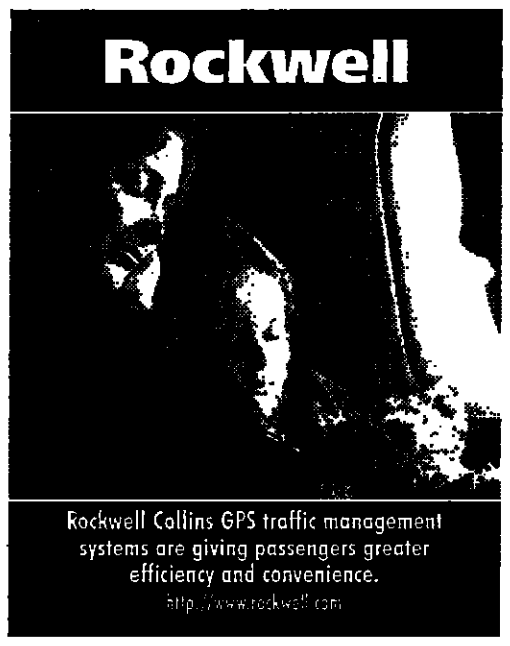
[illegible]

IRELAND (Dec 24 / Punt)

[illegible]

ITALY (Dec 28 / Lire)

[illegible]



NETHERLANDS (Dec 28 / Fls.)

[illegible]

NORWAY (Dec 28 / Kroner)

[illegible]

POLAND (Dec 28 / Zloty)

[illegible]

PORTUGAL (Dec 28 / Escudo)

[illegible]

SPAIN (Dec 28 / Pts.)

[illegible]

SWEDEN (Dec 28 / Kronor)

[illegible]

SWITZERLAND (Dec 28 / Frs.)

[illegible]

TURKEY (Dec 28 / TL Lira)

[illegible]

PACIFIC

JAPAN (Dec 28 / Yen)

[illegible]

AUSTRALIA (Dec 24 / Aust$)

[illegible]

HONG KONG (Dec 28 / H.K.$)

[illegible]

INDONESIA (Dec 28 / Rupiah)

[illegible]

MALAYSIA (Dec 28 / MYR)

[illegible]

NEW ZEALAND (Dec 24 / NZ $)

[illegible]

SINGAPORE (Dec 28 / S$)

[illegible]

SOUTH KOREA (Dec 28 / Won)

[illegible]

TAIWAN (Dec 28 / TW $)

[illegible]

THAILAND (Dec 28 / Baht)

[illegible]

AMERICAS

CANADA

TORONTO (Dec 24 / Can $)

4 pm close

[illegible]

MONTREAL (Dec 24 / Can $)

4 pm close

[illegible]

MEXICO (Dec 28 / Peso)

12.30 pm

[illegible]

AFRICA

SOUTH AFRICA (Dec 28 / Rand)

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	THURSDAY DECEMBER 24 1998: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	WEDNESDAY DECEMBER 23 1998: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (76)	194.14	-0.1	171.95	142.48	169.59	211.68	0.3	3.46	194.39	171.68	142.47	169.19	211.07	219.98	163.86	196.60
Austria (21)	178.48	-0.3	158.08	130.98	155.92	155.79	0.0	2.24	179.12	158.19	131.28	155.90	155.79	253.73	168.45	186.85
Belgium (22)	412.38	0.6	365.24	302.65	360.24	352.84	1.1	1.91	410.02	362.12	300.50	358.88	349.15	414.78	250.39	251.59
Brazil (32)	136.97	0.0	121.31	100.53	119.65	304.44	0.0	2.97	136.97	120.97	100.39	119.22	304.44	269.34	102.68	222.06
Canada (118)	197.81	0.6	175.20	145.18	172.80	221.99	0.3	1.75	196.68	173.70	144.15	171.19	221.25	248.78	159.94	266.50
Denmark (34)	498.54	-0.4	441.56	365.89	435.51	433.50	0.0	1.62	500.52	442.05	366.83	435.65	433.56	537.33	420.12	442.35
Finland (28)	571.27	-0.4	505.97	419.27	499.04	612.46	-0.1	1.49	573.65	506.63	420.43	499.30	612.78	573.65	267.59	274.44
France (75)	319.31	-0.3	282.81	234.35	278.94	281.95	0.0	2.22	320.25	282.84	234.71	278.74	281.95	345.18	225.24	233.31
Germany (55)	275.56	-0.4	244.06	202.24	240.72	240.72	0.0	1.35	276.57	244.26	202.70	240.72	240.72	325.61	218.59	226.89
Greece (36)	336.89	2.7	298.20	247.10	294.12	679.61	2.9	1.25	327.80	289.51	240.25	285.32	660.57	336.89	211.47	-
Hong Kong, China (67)	314.57	1.4	278.62	230.87	274.80	312.84	1.4	4.12	310.36	274.10	227.46	270.13	308.57	352.55	196.64	342.39
Indonesia (26)	51.70	-1.9	45.79	37.95	45.17	249.00	-0.6	1.23	52.69	46.53	38.61	45.86	250.48	87.21	19.04	61.95
Ireland (16)	540.52	0.9	478.74	396.70	472.18	515.24	1.2	1.69	535.79	473.19	392.68	466.36	508.91	560.44	388.13	388.30
Italy (53)	172.85	-0.3	153.09	126.86	150.99	214.78	0.0	1.30	173.46	153.20	127.13	150.98	214.78	184.49	115.27	115.27
Japan (445)	96.42	-1.0	85.40	70.76	84.23	70.76	-0.8	1.06	97.35	85.98	71.35	84.73	71.35	109.73	76.83	92.04
Mexico (29)	1148.54	0.8	1017.25	842.92	1003.32	12406.80	1.7	2.07	1139.18	1006.10	834.91	991.54	12199.91	1803.07	787.15	1689.50
Netherlands (26)	521.31	0.1	461.72	382.60	455.40	450.57	0.5	2.10	520.92	460.06	381.78	453.40	448.57	582.38	391.03	480.05
New Zealand (18)	60.79	1.8	53.84	44.61	53.10	61.72	2.0	4.73	59.74	52.76	43.78	52.00	60.52	77.84	45.68	73.39
Norway (37)	215.91	0.4	191.23	158.46	188.61	223.44	0.0	2.59	215.00	189.89	157.58	187.14	223.44	357.71	181.86	312.87
Philippines (22)	87.48	1.5	77.48	64.20	76.42	170.01	1.4	0.87	86.16	76.10	63.15	75.00	167.68	106.98	42.48	78.39
Portugal (18)	252.17	-0.4	223.34	185.07	220.28	297.35	0.0	1.11	253.08	223.51	185.48	220.28	297.35	289.39	194.13	-
Singapore (41)	216.54	0.6	191.79	158.92	189.16	165.15	0.6	1.72	215.33	190.17	157.81	187.42	164.13	246.74	102.45	227.99
South Africa (38)	176.79	1.7	156.58	129.75	154.44	228.57	1.5	4.14	173.80	153.50	127.38	151.27	225.28	346.20	151.55	263.24
Spain (30)	395.70	-0.4	350.47	290.41	345.67	428.67	0.0	1.88	397.37	350.94	291.23	345.86	428.67	417.73	268.03	268.82
Sweden (46)	506.04	-0.1	448.20	371.39	442.06	602.67	0.0	1.94	506.73	447.53	371.38	441.05	602.67	628.19	379.18	456.11
Switzerland (30)	414.74	-0.7	367.33	304.38	362.30	352.90	0.0	1.21	417.66	368.86	306.10	363.53	352.90	439.48	307.73	334.59
Thailand (35)	23.70	0.9	20.99	17.40	20.71	33.44	0.9	2.83	23.48	20.74	17.21	20.44	33.15	33.84	8.15	19.14
United Kingdom (207)	379.34	-0.9	335.98	278.40	331.38	335.98	-0.6	2.92	382.65	337.94	280.44	333.05	337.94	401.84	307.96	328.96
USA (619)	503.42	-0.1	445.87	369.46	439.77	503.42	-0.1	1.29	503.95	445.08	369.35	438.64	503.95	503.95	378.74	380.87
Americas (796)	446.90	-0.1	395.82	327.99	390.40	379.12	-0.1	1.32	447.26	395.01	327.80	389.29	379.44	447.26	343.40	346.03
Europe (734)	357.37	-0.5	316.52	262.23	312.19	323.42	-0.1	2.08	358.99	317.05	263.10	312.46	323.72	386.24	279.29	284.75
Eurobloc (344)	103.79	-0.2	91.93	76.18	90.67	98.13	0.1	1.75	104.01	91.86	76.23	90.53	97.98	113.28	81.53	-
Nordic (145)	487.66	-0.2	431.92	357.90	426.00	491.57	0.0	1.81	488.72	431.62	358.18	425.38	491.65	555.97	360.04	402.87
Pacific Basin (730)	104.58	-0.6	92.62	76.75	91.35	79.76	-0.5	1.59	105.24	92.94	77.13	91.60	80.14	119.48	82.88	102.41
Euro-Pacific (1464)	209.70	-0.5	185.73	153.90	183.18	171.21	-0.2	1.94	210.75	186.13	154.46	183.44	171.56	220.19	166.00	178.45
North America (737)	482.67	-0.1	427.50	354.24	421.65	484.02	-0.1	1.31	483.08	426.64	354.05	420.47	484.46	483.08	367.39	369.80
Europe Ex. UK (527)	334.22	-0.2	296.01	245.29	291.96	307.42	0.1	1.68	335.06	295.91	245.56	291.63	306.99	366.32	250.03	254.78
Europe Ex. Eurobloc (390)	97.16	-0.7	86.05	71.31	84.87	95.43	-0.3	2.43	97.85	86.42	71.71	85.17	95.77	103.93	77.40	-
Europe Ex. UK Ex. Eurobloc (183)	98.25	-0.4	87.02	72.11	85.83	93.90	0.1	1.44	98.62	87.10	72.28	85.84	93.79	109.21	75.16	-
Pacific Ex. Japan (285)	181.72	0.6	160.95	133.37	158.75	188.02	0.8	3.57	180.62	159.52	132.38	157.21	186.47	216.04	128.26	194.62
World Ex. Eurobloc (1956)	103.79	-0.3	103.31	90.57	98.02	102.17	-0.2	1.57	104.07	103.29	30.69	97.92	102.36	104.07	83.09	-
World Ex. US (1681)	208.79	-0.4	184.92	153.23	182.39	175.91	-0.2	1.96	209.69	185.20	153.69	182.52	176.18	221.91	165.95	182.16
World Ex. UK (2093)	296.54	-0.2	262.64	217.63	259.04	264.06	-0.1	1.45	297.10	262.39	217.74	258.59	264.26	298.02	234.66	238.34
World Ex. Japan (1855)	406.68	-0.2	360.19	298.47	355.28	395.04	-0.1	1.66	407.42	359.82	298.60	354.61	395.26	411.23	318.78	322.99
The World Index (2300)	303.58	-0.3	268.95	222.86	265.27	270.73	-0.1	1.60	304.45	268.88	223.13	264.99	271.08	306.56	242.08	246.08

 CONSTITUENT CHANGE 24/12/98: Name change: [illegible] Forest to [illegible] (Canada). CONSTITUENT CHANGE WITH EFFECT 28/12/98: Deletion: Oshawa Group Cl. A (Canada). Markets closed 24/12/98: Austria, Brazil, Denmark, Finland, France, Germany, Italy, Norway, Portugal, Spain, Sweden and Switzerland. Latest prices were unavailable for this edition.

Emerging markets: IFC investable indices

Dollar terms

Dec 24 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	823.95	+0.3	-26.2
Brazil	283.16		-41.3
Chile	458.05	+0.1	-28.7
Colombia[1]	453.58	-0.7	-45.0
Mexico	487.47	+0.8	-38.2
Peru[2]	134.40		-39.3
Venezuela[3]	445.91	+1.0	-51.3
East Asia			
China[4]	26.21	+2.3	-52.6
India[7]	62.11	-0.1	-25.5
Indonesia[8]	25.14	-0.1	-25.3
Korea[5]	51.95	+1.5	+116.2
Malaysia	86.59	-0.1	-5.0
Pakistan[9]	92.80	+1.0	-62.6
Philippines	120.11	+1.1	+6.5
Sri Lanka[10]	79.06	+1.9	-32.0
Taiwan, China[6]	120.52		-14.6
Thailand	61.93	+1.1	+31.7
Europe			
Czech Rep	49.69	-0.9	-9.2
Greece	596.04	+1.7	+84.6
Hungary[11]	284.61	-0.8	-9.6
Poland[12]	518.87	-0.2	-13.1
Portugal	286.21	-0.4	+35.5
Russia	23.99	+1.8	-83.9
Slovakia	44.00	-0.2	-55.6
Turkey[14]	140.79	-0.0	-54.9
Mideast/Africa			
Egypt	63.63	-0.1	-31.7
Israel	103.32	+0.2	-15.1
Jordan	210.87		+0.3
Morocco	169.91		+29.7
S Africa[15]	119.09	+1.7	-33.8
Zimbabwe[16]	103.74	-0.7	-58.8
Regions			
Composite	186.25	+0.6	-24.3
Latin America	427.99	+0.3	-38.8
Asia	107.22	+0.8	-8.5
EMEA	111.26	+0.8	-24.7
Europe	146.62	+0.5	-22.2
Eastn Europe	58.43	+0.1	-58.4
ME & Africa	51.88	+1.2	-27.8
Comp ± Malay	188.74	+0.6	-23.3
Asia + Malay	107.76	+0.6	

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Mar 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993
Latest indices were unavailable for this edition.

هكذا أمن الأول

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

MFS Meridian Funds

Marshall Wace Asset Management Limited

Masters International Advisors

Montgomery Emerging Markets Fund Ltd

Morgan Stanley Offs Advisory Mortgage Fd Inc

National Investment Trust Company Ltd

North Atlantic Management Co Ltd

Olympus Capital Management Ltd

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

GUERNSEY (REGULATED)(**)

Rothschild Asset Management - Contd.

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc (x)

Aberdeen Prolific International Fund Plc

Global Asset Management (GAM)

Asian Growth Fund Plc

Asset Korea Fund

Asset Universal Ltd

Atlantis Korean Smaller Companies Fund

BAS-EX Management SA

BT&T Asset Management (Ireland) Ltd

BZW Secured Equity Fund II Plc

Bank of Ireland Unit Managers Ltd

Janus World Funds - Contd.

John Hancock Funds Plc

Nanuk Korea Venture Fund

Renaissance International Fund Plc (x)

Investec Guinness Flight (Ireland) Ltd

Scottish Mutual Int'l Fund Managers Ltd

Sellers Investment Mngt (Ireland) Ltd

Short-Term Investments Co (Global Series) Plc

Singer & Friedlander Closed Funds Plc

Skandia Select Fund Plc

Lazard Investment Funds Ltd

Lazard Global Equity Fund Plc

Bank of Cyprus Group

BOC International Fund Management Ltd

Baring Int'l Fd Mngrs (Ireland) Ltd

Lazard Investment Funds Ltd - Contd.

Lazard Global Bond Fund Plc

Lazard Global Liquidity Fund Plc

Lehman Brothers/GLG Partners Asset Mngmt

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

Offshore Funds and Insurances

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LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (u)

4 Rue Jean Monnet, L-2180 Luxembourg 352 424049335

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav (u)

Framlington International Portfolios

JERSEY (REGULATED)(**)

Prudential Fund Managers (Jersey) Ltd

PO Box 103, St Helier, Jersey 01534 606000

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

PO Box 69W St Helier Jersey 01534 24365

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

Aberdeen International Ltd

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross

Equitable Life (International)

PanEuroLife societe anonyme

Ardent Investment Management Limited

Dresdner Bank Investment Group

Global Asset Management - Contd.

Jardine Fleming Unit Trusts Ltd

Mortimer & Scott

Scudder, Stevens & Clark Inc

Europe 1992

Euromet Ltd

Everest Capital Limited

F.I. Founders Asset Management Ltd

Global Asset Management - Contd.

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Mkt cap£m	Last xd	City line
FTSE 100 TRANS		[illegible]	—	–	–	–	14.9	–

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the SE Official list.

AIM - Continued

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS")

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

† Interim since increased or resumed.
‡ Interim since reduced, passed or deferred
Φ Figures or report awaited
♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
♣ Free annual/interim report available, see details below.
‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
♠ Price at time of suspension
, Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress
§ *Forecast dividend; cover based on earnings updated by latest interim statement.*
♣ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Dividend adjusted for complex issue. g Assumed dividend. *k Assumed dividend after scrip issue.* m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Dividend includes amount payable after 6/4/99. z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1999. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend. Cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). *P Dividend adjusted for consolidation or share split.* Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: , ex dividend; , ex scrip issue; , ex rights; , ex all; , ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1405 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Monthly High Inc Tst (In/Tr), BGP (Pharm). Deletions: Astec (BSR) (E&EE).

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the Internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

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For Retail Price Index details call 0891 43 0005.

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

4 pm close December 28

NEW YORK STOCK EXCHANGE PRICES

- X - Y - Z -

116½	66½	Xerox x	1.44	1.2		11038	115½	111⅝	115⅝	+4⅝
66	37½	Xtra Corp			10	486	41⅛	40⅝	41⅛	+⅜
31	22½	Yankee Egy x	1.36	4.9	22	34	28	27⅞	27⅞	-⅛
52	27½	York Int x	0.48	1.2	21	408	38	38¼	38⅝	+⅜
24	8⅛	Zapata			3	5174	12	10½	11	+⅝
30½	22⅞	Zenith Nat	1.00	4.4	16	22	23	22⅞	22⅞	
8	5⅞	Zweig Inc x	0.70	11.4		430	6⅛	6	6⅛	+⅛
14	9⅞	ZweigFd	1.08	10.9		451	11	10¾	10⅞	-⅛
9	8⅛	Zweig Tot x	0.84	9.5		802	9	8⅞	8⅞	-⅛

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Dec 24	Dec 23	Dec 22	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9217.99	9202.03	9044.46	9374.27 (23/11)	7539.07 (31/8)	9374.27 (23/11/98)	41.22 (8/7/32)
Home Bonds	106.55	106.72	106.74	107.17 (9/12)	104.42 (11/5)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3044.06	3054.59	3036.18	3686.02 (16/4)	2345.00 (8/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	314.54	315.05	312.81	320.51 (8/10)	262.65 (9/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 9269.47 (9255.84) Low 9146.42 (9022.58) (Theoretical) Day's high 9245.54 (9211.06) Low 9178.90 (9043.17) (Actual)

Standard and Poors	Dec 24	Dec 23	Dec 22	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite	1226.27	1228.54	1203.57	1228.54 (23/12)	927.69 (9/1)	1228.54 (23/12/98)	4.40 (1/6/32)
Industrials	1471.51	1474.98	1442.28	1474.98 (23/12)	1077.40 (9/1)	1474.98 (23/12/98)	3.52 (30/6/32)
Financial	131.71	131.57	129.67	147.68 (14/7)	95.80 (8/10)	147.68 (14/7/98)	7.13 (4/8/74)
Others							
NYSE Comp.	589.07	589.95	578.75	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.64 (25/4/42)
Amex Comp	665.49	664.78	655.35	753.67 (22/4)	663.75 (8/10)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	2163.03	2172.54	2120.98	2172.54 (23/12)	1419.12 (8/10)	2172.54 (23/12/98)	54.87 (3/10/74)
Russell 2000	405.56	404.79	400.24	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.39 (7/12/83)

RATIOS

	Dec 18	Dec 11	Dec 4	Year ago
Dow Jones Ind. Div. Yield	1.71	1.72	1.69	1.78
	Dec 16	Dec 9	Dec 2	Year ago
S & P Ind. Div. yield	1.23	1.21	1.22	1.49
S & P Ind. P/E ratio	35.68	36.28	35.71	25.90

US DATA

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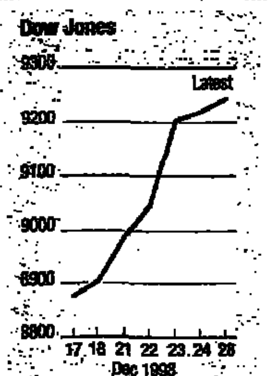

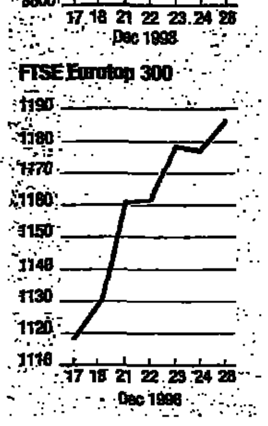

JAPAN

	Dec 28	Dec 24	Dec 23	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	13779.08	13706.73	closed	17264.34	12879.97	38915.9	85.25

Day's high: 13894.55. Day's low: 13703.29.

TOKYO TRADING ACTIVITY Volume : 19,179,000

Monday (Active stocks)	Stocks traded	Close price	Day's change
Sakura	7,124,000	281	+5
Mit.TrB	4,920,000	132	+12
MbElec	3,285,000	345	+7
NKK	2,730,000	76	+1
SumTrB	2,559,000	302	−2
Nshlw	2,480,000	89	−2
NpSB	2,373,000	203	+2
FujiBk	2,323,000	431	+12
Nomura	2,101,000	980	−5
NikkoS	1,624,000	310	+7

Monday (Biggest movers)	Close price	Day's change	Day's chge %
Ups			
Shok.It	45	+5	+12.5
MitTrB	132	+12	+10
NpRoad	197	+17	+9.4
DNpInk	295	+23	+8.5
Downs			
KDD	3900	−280	−6.7
Chyoda	210	−15	−6.7
Toyen	625	−41	−6.2
Renown	69	−4	−5.5

FRANCE

	Dec 28	Dec 24	Dec 23	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3873.10	closed	3872.42	4388.48	2862.54	4388.48	984.61

Day's high 3901.46. Day's low: 3860.75.

PARIS TRADING ACTIVITY Volume : 332,[illegible],780

Monday (Active stocks)	Stocks traded	Close price	Day's change
FrTele	589,957	432	−4
Alcatel	548,430	679	−17
Vivndi	538,307	1427	+20
Carne	439,133	44.3	
Renault	413,584	235.7	+2.7
Usinor	378,584	62.7	+0.2
Axa	364,885	788	+1
RhonPA	288,593	282.5	−0.5
Schndr	254,721	334.2	+8.2
EllAqu	215,774	642	−5

Monday (Biggest movers)	Close price	Day's change	Day's chge %
Ups			
GrdVsn	124.7	+12.9	+11.5
Gaumnt	386	+26	+7.2
RemyC	112	+6	+5.7
Tchelp	520	+28	+5.3
Downs			
FrmBel	4589	−221	−4.6
Coflas	1186	−54	−4.4
Cimect	308.5	−11.5	−3.6
Essilr	2244	−78	−3.5

GERMANY

	Dec 28	Dec 24	Dec 23	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5044.77	closed	4951.77	6171.43	3896.08	6171.43	931.18

Day's high: 5056.21. Day's low: 4976.04.

FRANKFURT TRADING ACTIVITY Volume : (u)

Monday (Active stocks)	Stocks traded	Close price	Day's change
DmlrCh	607,487	168.5	+8.8
Cmrzbk	438,681	52.3	+2.4
Veba	409,297	97.2	+3.2
Lufthn	314,165	36.9	+1.7
BASF	276,212	64.9	+1.0
Dt Tel	260,776	54.85	−0.55
Bayer	248,565	71.1	−0.4
Siemns	229,472	112.8	+2.2
DresdBk	201,716	71.2	+1.2
Dt Bk	200,984	99.7	+1.8

Monday (Biggest movers)	Close price	Day's change	Day's chge %
Ups			
ZxFpap	132	+12	+10
GEA	47	+4	+9.3
RWE Pf	57.8	+4.8	+9.1
BMW	1310	+85	+6.9
Downs			
HeidZm	127.5	−5.5	−4.1
Mannsm	192.5	−7	−3.5
Puma	22.2	−0.8	−3.5
Jenoptk	36.5	−1	−2.7

UK

	Dec 28	Dec 24	Dec 23	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	closed	5857.2	5908.8	6179.00	4648.70	6179	986.9

Day's high: – . Day's low: –

LONDON TRADING ACTIVITY Volume : 106,500,000

Thursday (Active stocks)	Stocks traded	Close price	Day's change
BP	4,224,442	902	+23½
Cons Coal	3,671,701	5½	+1½
A Fisher	2,884,497	4½	−½
Thistle Hts	2,770,139	105½	−1
Shell	2,682,261	349¾	−¼
Fortune Oil	2,179,701	3	−⅛
Coca Cola Bv	2,162,033	105	
Br Aerospace	2,029,044	525	−2
Inchcape	1,918,731	127½	
[illegible]	1,800,000	18½	

Thursday (Biggest movers)	Close price	Day's change	Day's chge %
Ups			
Spring Grp	146½	+31½	+27.4
Eyecare Prod	14½	+2½	+20.8
UBD	37	+6	+19.4
Osprey Comm	9	+1	+12.5
Downs			
Heritage Life	11	−2	−15.4
Dragon Oil	16	−2½	−13.5
Tompkins Gp	3½	−½	−12.5
Br Biotech	31¼	−2¼	−6.6

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low
Mar	1241.20	1242.10	−0.50	1243.40	1238.70
Jun	1251.50	1249.50	−4.30	1253.70	1248.30

Nikkei 225	Open	Sett price	Change	High	Low
Mar	13880.0	13700.0	−200.0	13880.0	13670.0
Jun	13700.0	13600.0	−100.0	13750.0	13600.0

Open interest figures for previous day.

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WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close December 28

[illegible]

THE NASDAQ-AMEX MARKET GROUP

[illegible]

AMEX

4 pm close December 28

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Net gains for on-line stocks lifts Nasdaq

AMERICAS

The December rally in technology stocks continued unabated yesterday morning, lifting US share prices close to, or above, their records, *writes Richard Waters in New York.*

The latest advance pushed the Nasdaq composite up another 22.19 or 1 per cent to 2,185.22 by early afternoon in New York, taking its gain since the beginning of the month to 12 per cent. Internet stocks again led the way, with on-line retailers adding to the impressive gains notched up in the run-up to Christmas.

Other indices recorded more modest gains. The Dow Jones Industrial Average rose 23.69 to 9,241, less than 100 points from the peaks it hit in mid-July and late-November. The Standard & Poor's 500 index edged up 2.5 to 1,228.77, another record.

Among the big technology companies dominating the Nasdaq, Microsoft climbed 1\frac{5}{8}$ to 142\frac{15}{16}$, while Cisco Systems rose another 1\frac{1}{16}$ to $95¾. Intel took a breather after its powerful advance, falling back $⅝ to $124¾.

Meanwhile, the mania for internet stocks continued unabated. The companies that have established themselves as the blue chips of the new sector gained 10 per cent or more once again.

Yahoo jumped $32¼ or 13 per cent to $279¾, while America Online advanced $13⅝ to 150\frac{1}{16}$ and Amazon.com rose 32\frac{1}{16}$ to $356⅞. The sector once again boasted a new "wonder stock" for the day – SkyMall, a retailer whose shares were the most actively traded on the Nasdaq, soaring 25\frac{7}{16}$ to $38. The company had said that its internet sales had jumped six-fold this year, though they still only accounted for $2m of its $65m revenues.

The more sedate gains among Dow stocks also reflected the technology boom. Hewlett-Packard rose $$\frac{3}{16}$ to 68\frac{11}{16}$ and IBM climbed 1\frac{1}{16}$ to $189⅝. The biggest gains in the Dow were reserved for traditionally more cyclical companies.

Caterpillar rose $1⅛, or 2.6 per cent, to 44\frac{1}{16}$ – though shares in the maker of earth-moving equipment are among the few in the Dow to have lost ground this year, and are still more than 25 per cent below their June peak.

Elsewhere, United Technologies was up 2\frac{5}{16}$ or 2.2 per cent at $109.

Mexico City drops despite perky peso

MEXICO CITY moved lower in early trading in spite of a solid start for the peso, where sentiment was said to have been buoyed by positive hopes for the budget.

At midsession, the benchmark IPC index was off 22.89 at 3,978.46 in volumes which continued to reflect a seasonal absence of activity. "The peso's perkier, but the action in the share market is nominal," said one broker.

SAO PAULO drifted lower in early trading. midsession the Bovespa index was off 40 at 7,137.

CARACAS continued to gain ground. Up more than 3 per cent over last week, the IBC index was a further 41.34 ahead at 4,742.27 at midsession.

Daimler optimism spreads round Frankfurt

EUROPE

German equities clawed back above the 5,000 level as investors in **FRANKFURT** returned from the Christmas break in upbeat mood. The Xetra Dax index ended 61.53 or 1.2 per cent higher at 5,040.15.

The buyers stepped on DaimlerChrysler's accelerator after the motor giant forecast significantly higher earnings for 1999. Sales growth was put at 13 per cent and merger synergies were said to be having an increasingly important impact on trading.

The shares jumped to DM167.80 before settling at DM166.35, up DM8.55 or 5.2 per cent. The improved sentiment spread across the motor sector as a whole. BMW added DM59.50 at DM1,314.50 and Volkswagen rose DM2.30 to DM137.30.

The FTSE Eurotop 300 index rose 14.63 to 2,734.38. See Euro Prices page.

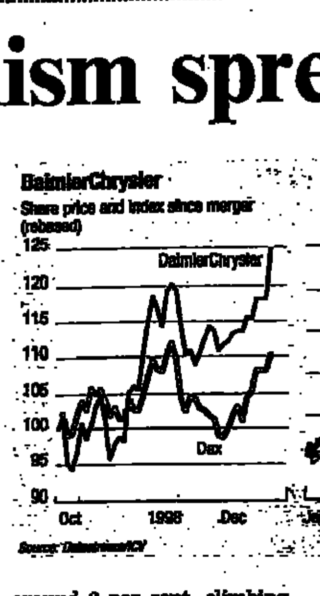
Telecoms, something of a favourite global play in recent sessions, came in for a rethink as competition concerns sparked selling. According to a weekend press report, Deutsche Telecom, off 88 pfg at DM55.02, planned a further round of tariff cuts. Mobilcom tumbled DM30 or 6.3 per cent to DM562 and Mannesmann came off DM7.50 at DM192.50.

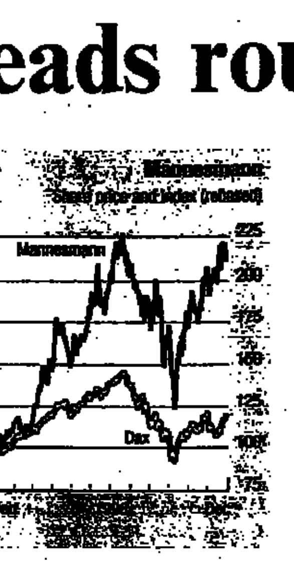
Banks were mixed in very light trading volumes. Commerzbank rose DM2.25 to DM52.10, but HypoVereinsbank lost DM4 at DM131.95.

PARIS ended little changed after a session of minimal volume. The CAC-40 index finished 0.68 better at 3,873.10 in turnover of just FFr4.8bn.

Accor rose FFr48 to FFr1,188 on what brokers described as end-of-year book balancing. Software leader Cap Gemini was also in good form, improving FFr37 at FFr895. Alcatel shed FFr17 at FFr679.

AMSTERDAM rose 13.79 to 1,192.39 on the AEX index, lifted mostly by selective buying of financials. Aegon and Fortis Amev both rose around 2 per cent, climbing Fl 4.20 to Fl 232 and Fl 3.50 to Fl 154.50 respectively.





Shipping leader Nedlloyd was the day's hot stock, bouncing off recent lows in thin volume. The shares, which stood at Fl 53.90 in March, jumped Fl 1.90 or 8.1 per cent to Fl 25.50.

Jobs agencies provided a dash of seasonal sparkle. Unique rose Fl 3.50 to Fl 41.10 and Brunel Fl 3.70 or 11.5 per cent to Fl 35.80. Randstad gained Fl 6.30 at Fl 102.30.

Bid rumours got firmly behind plastics and textiles group Ten Cate, sending the shares up Fl 6.30 or 10.6 per cent to Fl 66.

HELSINKI closed higher for an eighth day after a share transfer by Nokia, the telecommunications group, helped push the Hex index to an all-time high.

The index ended 115.34 or 2.1 per cent up at 5,719.35. This latest jump means it has climbed 15 per cent since the close on December 14.

Nokia transferred 32m shares from Holland to Finland, raising the prospect of an eventual share buy-back. The transaction was the biggest ever on the Helsinki bourse.

Nokia finished FM18.50 or 3 per cent higher at FM696. The stock has now risen 20 per cent in the last eight days' trading.

Talentum, the media company, posted its second successive steep rise after recent positive sentiment in the media and on the bourse. The shares closed at FM82, up FM14 or 20.6 per cent, making a cumulative two-day increase of 43.9 per cent.

MILAN rose sharply in an eventful session during which Mediobanca, the merchant bank, was suspended limit up. The Mibtel index jumped 656 or 2.8 per cent to 23,720.

Mediobanca shares were suspended shortly before the close after rising L2,028 or 9.9 per cent to L22,550 on optimism about the bank's prospects for next year. The stock ended L1,703 or 8.3 per cent up at L22,225.

MADRID edged upward as portfolio investors tried to reshape holdings before the end of the year. The general index ended 8.54 or 1 per cent higher at 872.35.

Investors continued to punish companies that are scheduled to drop out of the Ibex-35 index of leading shares on January 1.

Asturiana de Zinc, the zinc producer, dropped Pta70 or 5.6 per cent to end at Pta1,180, while Tubacex, the steel tube maker, fell Pta14 or 4.6 per cent to Pta293.

ZURICH made a solid gain in a quiet session characterised by portfolio adjustment by fund managers. The SMI index of leading shares rose 94.7 or 1.3 per cent to 7,255.5.

Financial stocks were among the strongest performers. Credit Suisse Group put on SFr5.50 or 2.5 per cent to end at SFr223.50, UBS rose SFr2 or 0.5 per cent to SFr429 and Zurich, the insurer, put on SFr29 or 2.8 per cent to end at SFr1,036.

Written and edited by Jeffrey Brown, Michael Peel and Paul Gregan

Deflationary fears trigger Tokyo falls

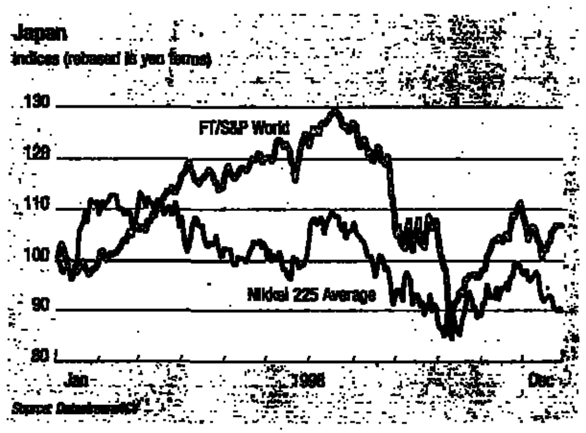
ASIA PACIFIC

Shares traded lightly in **TOKYO** in spite of Sunday's confirmation by the Economic Planning Agency that Japan's economy had entered a deflationary spiral, *writes Alexandra Nusbaum.*

The benchmark Nikkei 225 Average fell 88.89 or 0.6 per cent to 13,709.06, near to its session low of 13,703.29, after trading as high as 13,894.55. The weighted Nikkei 300 was down 0.55 at 214.73. The Topix index of all first-section shares lost 3.07 at 1,079.89.

Volume was a mere 191m shares traded against 227m on Friday. Momentum was down with 606 stocks retreating and 496 advancing.

The rubber-products sector dropped 2.8 per cent, with Bridgestone down Y85 to Y2,515 after announcing pre-tax profit excluding exceptionals for the year to December would fall short of the projected Y105bn. The oil and coal sector was down 2.6 per cent with Nippon Oil falling Y3 to Y389.



Sumitomo Trust and Banking dropped Y17 to close at Y302 after local newspapers reported that a loan to a real estate company of Y74.8bn may not be recoverable.

Tokyu Construction gained Y2 to Y88 after announcing a restructuring plan that included management changes, employee reductions and a withdrawal from overseas operations.

Sony rose Y10 to 8,280 and Toyota Motor climbed Y30 to Y2,970. Honda dropped Y20 to Y3,730 and Fuji Photo Film was down Y40 to Y4,070. In Osaka, the OSE index fell 47 to 14,657.

HONG KONG moved lower on futures-related selling. At HK$1.2bn, turnover was the lowest for a single day since January 1994. The Hang Seng index ended off 122.06 or 1.2 per cent at 10,170.14.

HSBC lost HK$4 at HK$195 and Cheung Kong fell HK$1.25 to HK$56.75. China Telecom pushed higher, adding 15 cents to HK$13.50. Guoco was the day's most active stock, jumping 70 cents or 5.3 per cent to HK$13.80 on news of a HK$220m disposal. Red chips gave up 1.3 per cent.

TAIPEI was the heaviest Asian casualty, sliding 201.35 or 3 per cent to 6,481.65 on the weighted index. Heavyweight electronics, hit lately by reduced earnings estimates, led the way down. Acer fell T$1.80 or 4.7 per cent to T$36.50 and Microelectronics lost T$1.30 at T$40.30.

BOMBAY ended sharply higher on speculative buying. The Bombay exchange index of leading shares rose 3.1 per cent or 90.77 at 3,054.22. Dealers said investors were anticipating a new year rise in inflows from foreign funds.

Software companies performed strongly. Pentafour Software and Exports, Aptech, Satyam Computer Services, Leading Edge Systems and Digital Equipment all posted rises close to the upper limit of 8 per cent.

Rate talk boost for Jo'burg

SOUTH AFRICA

Talk of lower interest rates pushed shares in Johannesburg smartly higher, lifting the broad market 2.1 per cent with the all share index up 109.1 at 5,347.9.

This represented the best closing level since early December, with investor sentiment boosted by daily declines for the central bank's repo rate.

Rand weakness has kept money markets high in recent months, but speculation yesterday suggested an official downward nudge for rates could come early in the new year.

Industrials added 2.5 per cent to 5,793.2 and financials were also upbeat.